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CONCURRENT RESOLUTION ON THE BUDGET FOR FISCAL YEAR 1992

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

FEBRUARY 27, 1991—LABOR AND EMPLOYMENT POLICY: THE 1991 RECESSION AND BEYOND

MARCH 5, 1991—HEALTH CARE DIMENSIONS OF THE 1992 BUDGET

Part 4 of 5

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LABOR AND EMPLOYMENT POLICY: THE 1991 RECESSION AND BEYOND

WEDNESDAY, FEBRUARY 27, 1991

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 10:03 a.m., in room SD–608, Dirksen Senate Office Building, Hon. Jim Sasser (chairman of the committee) presiding.

Present: Senators Sasser, Simon, Robb, Domenici, Grassley, Kasten, Bond, and Brown.

Staff present: Larry Stein, staff director; John J. Callahan, deputy staff director; and Alan Cohen, assistant director for budget priorities and review.

For the minority: G. William Hoagland, staff director; and Peter Taylor, chief economist.

OPENING STATEMENT OF CHAIRMAN SASSER

Chairman SASSER. The committee will come to order.

I might say at the outset that the distinguished ranking member Senator Domenici has been delayed this morning in the Energy Committee. He will join us just as soon as he can. He has indicated through his staff that we should go ahead this morning and begin the hearings.

I might say to our witnesses that this morning is an extremely busy morning in the Senate. I think every committee perhaps in the Senate is meeting this morning at the same time this committee is meeting, so I think that explains the fact that we do not have overwhelming attendance this morning. I hope our witnesses will understand that that is no reflection on their presence here this morning, and I am sure as the hearing proceeds, we will be joined by other Senators.

Today, the Senate Budget Committee meets to consider the labor and manpower policies in the 1992 budget. The committee has both intermediate and long-range concerns with the budget, as it affects the working men and women of this country.

In the short run, as we all know, we face a weakness in our unemployment insurance system as the recession deepens. Just in mid-January alone, I am advised that 700,000 new unemployment claims were filed; that is an increase of 42 percent over last year.

Even the administration's mild recession projections suggest that another 1 million workers may lose their jobs this year, putting a further strain on our efforts to aid the unemployed.

Yet, we face a serious shortfall in administrative funds needed to run our unemployment insurance programs. It is my view that we need at least another $200 million on an emergency basis to make sure that unemployment benefits are provided in a timely fashion.

I and several of my colleagues on the Budget Committee have today asked OMB Director Darman to make this an emergency appropriation in the context of the budget summit agreement of last year—to make it an emergency appropriation in the upcoming supplemental appropriations bill.

Second, I think there are serious shortcomings in the benefits provided by our own unemployment insurance system. In almost all of our States, workers exhaust their benefits after 26 weeks of unemployment. The current so-called extended benefits program could help, of course, but, unfortunately, we find that the requirements are so stringent, that it is unlikely to be triggered in most of our States.

In contrast, in previous recessions, the unemployed could receive benefits for as much as 55 or 65 weeks. Yet, the administration has no new proposal to help those whose benefits have run out and who still have no job.

Now, this is small comfort to the more than 1 million Americans who have lost their jobs since June 1.

Finally, it appears that the administration also has an insufficient long-run program for training a better skilled workforce for the 21st century. Trade adjustment assistance programs are terminated, traditional job programs such as the Job Training Partnership Act, which Vice President Quayle was instrumental in getting passed in the Congress when he served here, are cut by nearly 5 percent below baseline levels.

These reductions occur, even though the growth in hourly compensation rates in the United States fell way below our industrial competitors in the last decade, and even though many of our less educated workers face a skills gap, which promises them a bleak future of low wages and a declining standard of living.

A well educated, well trained and highly skilled workforce is the key to a strong economic future in this country. Until we have a stronger safety net for the unemployed worker in his or her family and effective job retraining programs for the American worker, we will surely fall behind in the intense global economic competition we will face, as we enter the 21st century.

Before turning to our witness this morning, I note that one of our most important and hard-working committee members is here this morning, Senator Paul Simon, and I turn to Senator Simon for any opening statement he might wish to make.

OPENING STATEMENT OF SENATOR SIMON

Senator SIMON. I thank you. I regret to say that I am going to apologize to the Secretary of Labor and to the former Secretary of Labor. We have a matter of some controversy on in the Judiciary Committee right now, and I hope to get back down here.

It is the first time I have officially had the opportunity to welcome Lynn Martin as Secretary of Labor. We have made a few joint appearances before on other occasions, but I wanted to make

sure that I was officially welcoming you here and I hope to get back down here, depending on how things go in the Judiciary Committee. I know both of them understand, and I apologize, Mr. Chairman.

Chairman SASSER. Thank you very much, Senator Simon. I said before you appeared that we have a great number of committees meeting this morning with a great deal of controversial items before them, and that explains our rather sparse attendance. We are pleased to have you just briefly.

I am pleased today to have before the committee the Honorable Lynn Martin, Secretary of Labor. Many of us in the Congress have known the Secretary for many years, through her years of distinguished service here. Some may not know that Secretary Martin is a former teacher, that before coming to the Congress she served at both the local and State levels of government, and, of course, most recently she served 5 terms in the House of Representatives.

She is a Phi Beta Kappa graduate of the University of Illinois. We are pleased to have the Secretary of Labor here this morning, the Honorable Lynn Martin.

Before getting to her testimony, we have been joined by the distinguished ranking member Senator Domenici. I explained, Senator Domenici, that you were unavoidably detained in an Energy Committee meeting this morning. We are pleased to have you here now and would like to hear any statement or comment you have to make before turning to the witness.

OPENING STATEMENT OF SENATOR DOMENICI

Senator DOMENICI. Thank you very much, Mr. Chairman.

I want the distinguished witness to know that not only was I at an Energy Committee meeting, but, believe it or not, we are there marking up a bill to decide whether we want Puerto Rico to become a State. That does not sound like it ought to be in the Energy Committee, but it is. We do things very differently around here.

Chairman SASSER. I never have understood how that got in the Energy Committee.

Senator DOMENICI. In any event, let me say to you that I am very pleased to have you here and pleased that you are in this job. I think you knew that before I said it here today.

I have some prepared remarks. Since we are all short of time, I do not think you will feel bad if I just put them in the record and tell you that I am absolutely convinced that America's challenge into the next decade is substantially related to whether or not we can adequately train and educate our people for the myriad of jobs that are going to be available.

In particular, we desperately need more skilled working men and women, and our system is rather inept at doing that. We have not changed our educational system in any dramatic way with reference to the changes that have occurred in job and employment needs, but I am very confident that you are going to be one who is innovative and suggest different approaches.

I would like to make my statement a part of the record and let the witnesses proceed, Mr. Chairman.

Chairman SASSER. Thank you, Senator Domenici. Without objection, it is so ordered.

[The prepared statement of Senator Domenici follows:]

PREPARED STATEMENT OF SENATOR PETE V. DOMENICI

I wish to join the chairman in welcoming our distinguished witnesses, Secretary of Labor Martin and former Labor Secretary Ray Marshall. Our witnesses come before us today during what appears to be the ninth recession of the postwar era.

This recession follows nearly 8 years of economic expansion that brought—contrary to some opinion—job gains and income increases that were spread broadly across geographic regions and demographic groups. And the new jobs were good jobs. Growth has been strongest in the higher-paid, higher-skilled occupations. And women and minorities have made substantial gains.

Today, however, the U.S. economy has slipped into recession. One of the first unmistakable signs of that economic decline appeared in the unemployment data, by January 1991, The civilian unemployment rate had risen to 6.2 percent from lows over the last 2 years of around 5.3 percent, the lowest in 16 years.

Prospects for this recession are expected to be brief and it may be the shortest of the postwar period. Compared with previous downturns, the economy currently has lower inventory stocks relative to sales; higher growth in demand for exports; a larger service-producing sector relative to total demand; and lower inflation rates than prevailed during previous recessions. Moderate expansion and significantly reduced inflation should begin before midyear.

For the reasons that I believe the economic downturn will be short, I conclude that perhaps our attention to it is misdirected. We need to focus on the long-term prospects for our nation. I recently heard the question why was it that the United States was producing smart bombs and dumb kids. I believe that question points to the real challenge to America's future, the upgrading of her workers' skills and setting academic standards for the *non*-college bound.

Our President has spoken about a "new world order". I believe we are also entering a "new economic order", an order marked by increasing wealth of nations, global economic activity, and technological advances. If America is to compete in this new world economy, it is important that we examine competitive standards, the use of emerging technologies, the knowledge skills that people need to perform work, our commitment to training America's workforce, and the way work is organized. The organization of America's workplaces is largely modeled after the manufacturing system made famous by Henry Ford, the managers did the thinking, technology furnished the productivity advances, and the operators simply supplied the grease for the wheels. This system helped make our Nation rich; however, as a new century approaches, the old work organization is becoming less appropriate. In the new model, we need high performance work organizations where bureaucracy is reduced and workers perform a wide variety of tasks.

Today we need to take stock of where we are as the preeminent world economy. We need to reflect on what we achieved in the 1980's. And we need to focus our strengths as we rededicate our efforts to prepare our Nation for the future. I know that Secretary Martin and Mr. Marshall share these concerns and I look forward to working with them to meet our common goals.

Chairman SASSER. We will turn now to Secretary Martin for her testimony.

STATEMENT OF HON. LYNN MARTIN, SECRETARY OF LABOR

Secretary MARTIN. Thank you very much, Mr. Chairman.

I must say, although Senator Simon's appearance was brief, certainly back in our home State, even with his brief appearances, he did rather well last November. Without him I would not be here, so I have a special debt of gratitude to Senator Simon.

Mr. Chairman and members of the committee, I am pleased to appear before you today to discuss the Department of Labor's fiscal year 1992 budget request. It would be unusual, I think, if I did not also remark that I mentioned to the chairman that one of the last times I saw him was on a budget conference committee. I, of

course, also have had the pleasure of working with Senator Domenici both in his current role as the ranking member of this committee and when he served as chairman of the committee.

My new department tells me that they do not know if a Secretary of Labor has ever testified before this Committee before, so it is a real pleasure to be here. I just want to tell you that I am glad you invited me, and I hope we get to speak together often, and work together to achieve the goals that I know we all share.

I would also tell you, in an effort to make sure that the Department does get off to a good start under a new Secretary, I am making every effort to talk to former Secretaries of Labor. I find that they bring not just knowledge about the job that we would expect, but also a forward-looking perspective that is invaluable.

So, I am extraordinarily pleased to be joined with, I know he is here to testify for you, Secretary Ray Marshall. We have had breakfast this morning and have totally agreed, I think, on the matters discussed in this testimony. We are going to be saying same things here. I look forward to continuing to working with him and with others.

I will focus my testimony on how the Department's request will address the needs of the workforce during the current recession, and the long-run policies that are needed to produce a more skilled workforce that will enhance our Nation's competitiveness and the lives of working men and women.

Before I discuss the Department's budget, I would like to tell you my goals for the Labor Department, goals that I mentioned during the confirmation hearing.

First, in order for working men and women to take full advantage of the opportunities that this great Nation offers, I will strive to insure that our people have the skills to form a lifetime foundation for productive work. This is not just about jobs, Mr. Chairman, but different careers that working men and women will, I hope, be able to choose from. Our human resources are our most precious natural resource. We must commit our full attention to enhancing them.

My second goal for the Department will be to fulfill our obligation to those currently on the job, which includes ensuring that our workers are as safe as possible, and that everyone has an equal opportunity to succeed. Equal opportunity in the workplace has long been a passion of mine, Mr. Chairman. As a Member of the House, I was able to help lead the fight to protect House employees from discrimination and unsafe working conditions. As a working parent, I am committed to supporting and encouraging innovative programs which assist both mothers and fathers in balancing work and family responsibilities.

My third goal will be to increase the financial security of millions of Americans in their retirement years. This could be accomplished by expanding pension coverage and by strengthening pension portability. I will also work to insure the basic fairness and integrity of the pension system through the enforcement of ERISA.

We have also got to encourage State and local governments, as well as management, labor unions and individual workers, to cooperate in finding new ways to improve our Nation's productivity and competitiveness.

To do this, this year's budget for the department, including permanent and indefinite budget authority, is $33.2 billion for fiscal year 1992. Mr. Chairman, I should add here that, although I was confirmed after the budget was sent to the Hill, and therefore I have not gone full-term with this particular child, I have adopted it and I look forward to describing it to you.

I have also brought with me some current and future Assistant Secretaries of the Department who have been part of that budget process, so that if there are any questions the new Secretary cannot answer, I hope you will allow those Assistant Secretaries, whom you know well, to join me.

The Department's 1992 budget reflects the President's and my commitment to limit spending and bring the deficit under control. At the same time, the budget contains necessary resources to continue to meet the significant responsibilities that we have to provide income support and adjustment services for unemployed workers during this recession, and to provide for some new initiatives which the Department is about to undertake.

Mr. Chairman, we are all concerned about the impact the current economic downturn is having on the American people. As a Member of the House, I represented the city with one of the highest unemployment rates in the country in 1982, and I can assure you that I am exceedingly sensitive to the needs of people without work and how that unemployment can affect people's lives.

As you know, the Labor Department oversees the basic unemployment insurance program, extended unemployment benefits when they are triggered, and training programs for dislocated workers and the long-term unemployed under the Economic Dislocation and Worker Adjustment Act. The Department is and will remain committed to seeing that these programs are operated as efficiently and humanely as possible.

Unemployment compensation is a primary component of the programs that are in place to assist workers. A total of more than $25 billion is expected to be paid to 11 million UI recipients this year.

The budget request includes $2.3 billion for unemployment insurance administrative expenses, an increase of $278 million over the 1991 appropriation. The administration also is proposing a fiscal year 1991 supplemental appropriation for an additional $100 million for this program, due to the increases in the unemployment insurance workload in the States.

Skills training may be the single most important task we undertake and, in fact, the most meaningful to the future of our country and to the people we represent. For fiscal year 1992, the Labor Department is requesting $5.3 billion for employment and training programs. The Department's request assumes passage of the administration's proposed amendments to the Job Training Partnership Act. One of my top priorities will be to see that every dollar of job training funds is spent wisely and that our programs are directed to those who are least skilled and the most disadvantaged. I am committed to assuring that these programs meet today's needs.

The EDWAA, Title III of the Job Training Partnership Act, was enacted in 1988 and serves dislocated workers irrespective of the cause of their dislocation. It provides a flexible array of services, including onsite rapid response, basic adjustment and training

services, needs-related payments and other supportive services. The Department of Labor's 1992 budget requests $527 million for the EDWAA program, which will enable the program to serve nearly 300,000 dislocated workers.

The administration's fiscal year 1992 budget proposes repeal of TAA, the Trade Adjustment Assistance program. It does not mean those workers will not be served. We propose to serve such dislocated workers under the EDWAA program.

You asked that I discuss the long-run policies that are needed to produce a more skilled workforce and to improve productivity and competitiveness.

It is clear that many particular challenges lie ahead if we are going to maintain and improve an already high standard of living. The United States has long set the standard in productivity. That productivity, however, is growing by only about 1 percent a year, and this growth lags behind the rates of growth being achieved by Japan, Germany and several newly industrialized countries. We know that higher worker skills are essential to a thriving future, and so we must assure that labor, business, educators, and workers themselves are better prepared to participate in a system of lifelong learning.

To meet these new competitive standards, we must reinvest in our human resources. Today's workers must be able to function as part of a team. In addition, that person is going to have to be flexible and be able to be a problem solver. I believe people have the capabilities to do this, but the worker must be given a chance to continue to learn. Organizations which utilize workers with these skills and abilities will have the greatest advantage.

Mr. Chairman and members of the committee, the Department of Labor, in partnership with labor, business, educators, and our colleagues at all levels in government, is helping to build a lifelong learning system capable of supporting America's world-class workforce. To accomplish this, we have much to do.

We must raise the educational standards for all students, so that young people have the basic skills needed in the workplace. Secondly, we must insure that our current workforce maintains the skills required for the global economy.

Secretary-designate Alexander and I have already begun meeting, because both of us believe this is not a question of which department does what, but how the various Cabinet officers work together to achieve a common goal. Turf fights may be rather enchanting to read about, but they do not serve a purpose, and the Secretaries of Health and Human Services, Housing, and Education, if he is to be confirmed, and I look forward to working together in a very progressive and productive way.

Third, we must find the appropriate roles for government at all levels, and we must make sure that business is a more important part of training on the job, and that labor is an essential part of this mix.

The Department of Labor is also committed to the improvement and expansion of the skills and readiness of all workers to meet the demands of the changing workplace. This commitment includes defining educational standards, improving the transition from school to work for noncollegebound youth, assisting disadvantaged youth

and adults and dislocated workers, and enhancing the skills and flexibilities of workers already employed.

Too many young Americans do not finish high school, they leave school without the skills they need to find and keep a job. Too many Americans still graduate without those skills, too. All new workforce entrants must acquire these skills. The Commission on Achieving Necessary Skills is working to define exactly what these skills are and what the achievement levels should be. I would hope that I would be able to share the report of that Commission sometime early this summer, and it will have an impact on our society as a whole.

The development of a structured and smooth transition from school to work is imperative to fully prepare and utilize the noncollegebound student. The Department of Labor has launched school-to-work transition demonstrations to test alternative learning systems that better integrate classroom and worksite instruction. These alternatives are intended to help students make the connection between school and work.

We have also launched Youth Opportunities Unlimited (YOU) demonstrations that target an integrated array of services on youth living in pockets of severe poverty in cities and rural areas to fundamentally improve their education and employment opportunities.

We also need to help experienced workers improve and upgrade their skills. The Department has several activities already underway. Demonstrations are expanding the apprenticeship concept, a concept in far greater use in Europe than it is here.

The National Advisory Commission on Work-Based Learning will advise me on other approaches that effectively address the growing needs for a productive and competitive workforce.

A new Training Technology Resource Center will help the people who provide training services to improve their training skills.

Our workplace literacy effort includes the establishment of a Center for Adult Literacy, jointly funded with the Department of Education and HHS, to expand our knowledge on how to combat the literacy problems that still exist.

We must also help the economically and educationally disadvantaged individuals to acquire skills. All levels of government, all levels of education, the public and private sectors, labor and management are challenged by the economic imperative that requires this investment.

In this era of budget stringency, we can no longer afford to have human resource systems competing against one another. To maximize the quality of investments in our people, we must coordinate our efforts, public and private, and underscore the importance of efficiency in the design and delivery of all systems.

If we do not make these commitments to invest in our human resources, we will let down the American workforce and we as a Nation will be the loser. The choice is ours, and so is the challenge before us.

Mr. Chairman and Members of the Committee, we will be searching together for solutions for competitiveness and other problems. My door is open to you. I hope you will see that I am open to different solutions, too. I believe together these problems can be solved.

I suspect there may be times we have differences, but I look forward to those times when we can combine our talents to achieve great things for working men and women in America.

I would be pleased to answer any questions that you may have.

Chairman SASSER. Thank you very much, Secretary Martin.

[The prepared statement of Secretary Martin follows:]

STATEMENT OF LYNN MARTIN
SECRETARY OF LABOR
BEFORE THE
COMMITTEE ON THE BUDGET
UNITED STATES SENATE

February 27, 1991

Mr. Chairman and Members of the Committee:

I am pleased to appear before you today to discuss the Department of Labor's fiscal year 1992 budget request. I will focus my testimony on how our request will address the needs of the workforce during the current recession, and the long-run policies that are needed to produce a more skilled workforce that will enhance our nation's competitiveness.

I am fortunate to have taken the helm of a Department which has such a rich history of making a positive difference in the quality of life of America's workers. It is our working men and women who have fueled a remarkable economic expansion and built a democracy which inspires others around the world. During my years of public service, I have stood squarely in the corner of America's working men and women and that is where the Labor Department will stand during my tenure as Secretary.

Before I discuss the Department's budget, I would like to share with you my goals for the Labor Department, goals that I mentioned during my confirmation hearing last month. These goals represent a spectrum for American workers which will touch their lives before, during, and after, their years in the labor force.

First, in order for working men and women to take full advantage of the opportunities our nation provides, I will strive to ensure that our working men and women have the skills to form

a lifetime foundation for productive work. Our human resources are our most precious natural resource. We must commit our full attention to enhancing these resources.

My second goal for the Department will be to fulfill our obligation to those currently on the job, which includes ensuring that our workers are as safe as possible, and that everyone has an equal opportunity to succeed. Equal opportunity in the workplace has long been a passion of mine, Mr. Chairman. As a Member of Congress, I led the fight to protect House employees from discrimination and unsafe working conditions. As a working parent, I am also committed to supporting and encouraging innovative programs which assist both mothers and fathers in balancing work and family responsibilities.

My third goal will be to help increase the financial security of millions of American workers in their retirement years. This could be accomplished by expanding pension coverage and by strengthening pension portability. I will also work diligently to ensure the basic fairness and integrity of the private pension system through the enforcement of ERISA. During my five terms in Congress, I heard time and time again from constituents who were concerned about the safety of their pensions. Safeguarding Americans' retirement funds is foremost on my agenda to ensure workers' security at the end of their working lives. I will work to ensure that our private pension system is safe and meets the needs of today's workforce and the retirees of tomorrow.

We must also encourage State and local governments, as well as management, labor unions and individual workers to cooperate in finding ways to improve our nations's productivity and competitiveness. The Federal government does not have the resources or the ingenuity to provide all solutions. It is, after all, in small and mid-sized businesses across America where most jobs are created. These businesses need the flexibility to continue to create jobs, and to remain competitive in today's ever-changing global market.

I will elaborate on several of these goals after I give you a brief overview of our FY 1992 budget request. The total budget request for the Department, including permanent indefinite budget authority, is $33.2 billion in FY 1992. As you well know, the enactment of the Budget Enforcement Act of 1990 established limits on discretionary spending with very specific procedures to ensure that deficit targets are not exceeded. The Department's FY 1992 budget reflects the President's and my commitment to limit spending and bring the deficit under control. At the same time, this budget contains necessary resources to continue to meet the significant responsibilities that we have, to provide income support and adjustment services for unemployed workers during this recession, and to provide for some new initiatives which the Department is about to undertake.

Mr. Chairman, we are all concerned about the impact the current economic downturn is having on the American people. Having represented the city with the highest unemployment rate in

the nation during the 1982 recession, I can assure you that I am exceedingly sensitive to the profound way unemployment affects people's lives. As you know, the Labor Department oversees the basic unemployment insurance program, extended unemployment benefits when they are triggered, as well as training programs for dislocated workers and the long-term unemployed under the Economic Dislocation and Worker Adjustment Assistance Act. The Department is, and will remain, committed to seeing that these programs are operated as effectively and humanely as possible.

Unemployment compensation is a primary component of the programs that are in place to assist workers during economic downturns. Over the next year the unemployment compensation program is expected to experience a sharp increase in activity. An added $8 billion is expected to be paid to nearly 2 million more individuals than last year as the proportion of the unemployed who are job losers -- those most likely eligible for Unemployment Insurance benefits -- increases. This will result in a total of more than $25 billion being paid to 11 million UI recipients this year.

The budget request includes $2.3 billion for unemployment insurance administrative expenses, an increase of $278 million over the FY 1991 appropriation. The Administration also is proposing a FY 1991 supplemental appropriation for an additional $100 million for this program due to projected increases in the Unemployment Insurance workload. For Employment Services, we are requesting $837 million, which includes $27.5 million for

increased alien labor certification activities. In addition, the Administration will propose a reauthorization of the Targeted Jobs Tax Credit program for an additional year, through 1992.

Skills training may be the single most important task we undertake and in fact, the most meaningful to the future of our country and its workforce. In FY 1992, the Labor Department is requesting $5.3 billion for employment and training programs. The budget request assumes passage of the Administration's proposed amendments to the Job Training Partnership Act. One of my top priorities will be to see that every dollar of job training funds is spent wisely and that our programs are directed to those who are least skilled and who are the most disadvantaged. I am committed to assuring that these programs meet today's needs. Included in the request is $1.3 billion for job training grants for youth, $1.1 billion for adults, $25 million for a new program to target comprehensive services to youth living in high poverty areas, and $887 million for the Job Corps, which will allow two new centers to fully operate.

The Economic Dislocation and Worker Adjustment Assistance Act (EDWAA), Title III of the Job Training Partnership Act, was enacted in 1988 and serves dislocated workers irrespective of the cause of their dislocation. It provides a flexible array of services, including on-site rapid response, basic adjustment and training services, needs-related payments and other supportive services which promote the reemployment of dislocated workers. Workers affected by specific Federal actions -- the

implementation of the Clean Air Act and defense base closings and downsizing -- will also be served under special provisions of EDWAA. The Department of Labor's FY 1992 budget requests $527 million for the EDWAA program, which will enable the program to serve nearly 300,000 dislocated workers.

The Trade Adjustment Assistance (TAA) program provides cash benefits and reemployment services to workers who lose their jobs or whose hours of work and wages are reduced because of increased imports. The Administration's FY 1992 budget proposes repeal of this program. We believe that trade-impacted workers would be better served with the more flexible and responsive array of services under EDWAA. In addition, on equity grounds we cannot justify Trade Adjustment Assistance as a separate program.

Long-Term Directions

You asked that I discuss the long-run policies that are needed to produce a more skilled workforce and to improve productivity and competitiveness.

It is clear that many particular challenges lie ahead if we are to maintain a high standard of living. The United States has long set the standard in productivity. Our productivity, however, is growing by only about 1 percent a year and this growth lags behind the rates of growth being achieved by Japan, Germany, and several newly industrialized countries. We know that higher worker skills are essential to improved productivity and a thriving future. And so, we must assure that labor, business, educators, and workers themselves are better prepared

to participate in a system of "lifelong learning".

In the "global economy" of today the marketplace demands more customization and variety in its goods and services; more timeliness and convenience in their delivery. New technology permits a much greater degree of customization than has ever been possible in the past, and high quality products are essential to economic success. Quality, variety, shorter delivery times -- these new standards of competitiveness require a workforce that is not only highly skilled, but also flexible and responsive.

To meet these new competitive standards we must invest in our human resources. American employers must also be prepared and organized to get maximum benefit from their workers. The organizational structure of many U.S. organizations is often too cumbersome to meet the new competitive standards. Changing the way that work is organized requires not only flexible approaches by employers, but a new breed of worker. Today's worker must be able to function as part of a team. In addition, the worker must be flexible, and be able to be a problem-solver. Most important, the worker must continue to learn. Organizations which utilize workers with these new skills and abilities will have the greatest competitive advantage.

Mr. Chairman, the Department of Labor -- in partnership with labor, business, educators and our colleagues at all levels of government -- is helping to build a lifelong learning system capable of supporting America's world-class workforce. To accomplish this, our nation has many tasks ahead.

First, we must raise the educational standards for all students so that young people have the basic skills needed in the workplace. Our educational systems should provide professional and technical qualifications for all youth in developing the complex skills required in a competitive economy.

Second, we must ensure that our current workforce maintains the skills required for our global economy. This means promoting to workers and employers the value of investing in lifelong learning. Because much of this learning will take place at the worksite, we must explore ways to assure that such programs meet high quality standards.

Third, we must find the appropriate roles for government at all levels, business, labor and others to play in encouraging U.S. firms to adopt high performance work organizations. There is a range of activities that we might explore, including identifying and disseminating "best practices," and providing direct technical assistance to firms.

To move in these directions we must not only work to strengthen and improve our current programs, but we must also build new partnerships between the public and private sectors to strengthen the ability of employers to upgrade and fully utilize the skills of all workers.

Department of Labor Initiatives

The Department of Labor is committed to the improvement and expansion of the skills and readiness of all American workers to meet the demands of a changing workplace and economy. This

commitment includes defining high educational standards, improving the transition from school to work for non-college bound youth, assisting disadvantaged youth and adults and dislocated workers, and enhancing the skills and flexibility of workers who are already employed.

Too many young Americans either do not finish high school or leave school without the skills they need to find and keep a job. All new workforce entrants must acquire work readiness skills. High educational standards must be set and achieved by virtually all students in order to better prepare them to successfully enter the workplace upon graduation. The Commission on Achieving Necessary Skills is working to define the basic skills and achievement levels needed by high school graduates to gain access to jobs with career ladders in the 1990's.

The development of a structured and smooth transition from school-to-work is imperative to fully prepare and utilize our non-college bound students. The Department of Labor has launched school-to-work transition demonstrations to test alternative learning systems that better integrate classroom and worksite instruction. These alternatives are intended to help students make the connection between school and work, motivating them to complete their education and to raise their achievement levels. We have also launched Youth Opportunities Unlimited (YOU) demonstrations targeting an integrated array of services on youth living in pockets of severe poverty in cities and rural areas to fundamentally improve their education and employment

opportunities.

We also need to help experienced workers improve and upgrade their skills. Increased investments by both individuals and employers in lifelong education and training will enhance the productivity and flexibility of workers. The Department has several activities already underway to enhance the skills of workers:

- Demonstrations are expanding the apprenticeship concept of work-based learning and training to new industries and occupations through partnerships with industry.
- The National Advisory Commission on Work-Based Learning, composed of diverse and highly influential executives of business, education, labor, and non-profit organizations, will advise me on approaches that will effectively address the growing need for a productive and competitive workforce. These approaches might include: developing a voluntary system for accrediting quality, industry-based training; and certifying the acquisition of skill competencies for employees who complete such training.
- A new Training Technology Resource Center will help trainers, schools, business, labor unions access and use information on workforce training issues, new instructional technologies, and best practices in work-based instruction.
- Our workplace literacy efforts include the establishment of a Center for Adult Literacy jointly funded with the Departments of Education and Health and Human Services to

expand our knowledge of how to combat literacy problems.

We must also help the economically and educationally disadvantaged individuals acquire the skills to become empowered to fully participate in the U.S. economy. Job training and employment services should be targeted at those most at risk of long-term failure in the labor market, the quality of training provided should be substantially improved, and accountability for fiscal integrity and program results must be increased.

All levels of government, education, the public and private sectors, both labor and management--are challenged by the economic imperative to invest in our workforce. In this era of budget stringency, we can no longer afford to have human resource systems competing against one another. To maximize the quality of investments in our people we must also coordinate our efforts--public and private--and underscore the importance of efficiency in the design and delivery of comprehensive human resource programs.

If we do not make real commitments to investments in our human resources, we will let down the American workforce and we as a nation will be the loser. The choice is ours, and the challenge is before us <u>now</u>.

Mr. Chairman and Members of the Committee, as we search together for solutions to competitiveness and other problems, my door will be open to Congress, labor, business, State and local officials, and educators. My mind is open to better ways of doing things.

This concludes my prepared statement. At this time I would be pleased to answer any questions.

Chairman SASSER. We do have a few questions this morning. I am aware of the fact that you are still in the process of familiarizing yourself with your rather large department and its programs, so any time that you want to defer any of our questions to perhaps some of your assistants or colleagues there, the committee would certainly understand.

Now, with regard to your time constraints this morning, I understand you need to be out of here by 11:00 o'clock. Is that correct?

Secretary MARTIN. I believe it was 11:20, but maybe my staff was trying to get me out earlier, in fear of what I might say. I would love to stay longer. I appreciate your courtesy.

Chairman SASSER. Secretary Martin, I am frankly very concerned about the shortage of available funding.

Secretary MARTIN. May I introduce, Mr. Chairman, Assistant Secretary Bob Jones; Assistant Secretary Tom Kormarek, who is responsible for Department management, and Jim McMullen, who is here as a specialist on the budget. The employment and training services administered by the Department are the responsibility of Assistant Secretary Jones.

Chairman SASSER. Welcome, gentlemen. We are pleased to have you here this morning before the committee.

Madam Secretary, I am very concerned about the shortage of available funding for running the unemployment insurance offices around the country.

As I said in my opening statement, the President's budget proposed a supplemental appropriation of $100 million, but I am advised that this amount is not sufficient, and part of the problem concerns the so-called carryover funds from last year's supplemental.

Now, apparently there are some in the Office of Management and Budget who are contending that last year's supplemental came so late in the year, that the States can carry over those funds and use them for extra administrative expenses they are incurring as a result of the increased unemployment compensation claims that are being filed.

Now, the National Governors' Association, however, maintains that these carryover funds did not give most States any windfall at all, because the funds were used to wipe out the existing backlog of applications, and because the number of claims have increased so dramatically.

I know in my native State of Tennessee, for example, that the time for processing an unemployment claim has gone up very dramatically and that people are now standing in line for as much as 6 hours a day before they can get to an appropriate officer to begin processing their claim, and my State does not have any carryover of administrative funds.

Now, given the present shortfall in administrative funding, the Department of Labor has adopted the policy of reimbursing States for 75 percent of their costs for all claims above the average base workload.

Now, the President's request for a $100 million supplemental would merely maintain the 75 percent reimbursement rate, and the question comes: Does the Department of Labor believe that maintaining the level of funding lower than the State's actual costs

violates the agreement that the Federal Government has to provide for State administrative costs?

Secretary MARTIN. Obviously, Governors of the States would prefer 100 percent, and you are absolutely correct, if we received the extra $100 million in the supplemental, it will fund States administratively up to the 75 percent level. If we would receive $150 million, that goes up, and $200 million goes up some more.

These are extraordinarily difficult budgetary choices. When the Senate and the House, in its wisdom, last year passed the budget agreement, it required that difficult choices be made. This budget is the best combination of often very good programs and by necessity it makes choices among them.

Mr. Chairman, I think you and I agree, for the moment to push aside some of those States that have internal administrative problems, that no matter how much money you gave them for UI administration, they might still have some real problems with lines, if we assume all States have a perfect delivery system. It is absolutely true that if you pass and the House passes that extra $100 million, they will be funded at 75 percent. From the States' point of view, that is probably not the ideal. I do hasten to add, there are many programs where States are funded at a lot less than 75 percent, however.

Chairman SASSER. I am not aware of any statute which says that they are to be maintained at nearly 75 percent reimbursement rate.

Secretary MARTIN. There is no statute that demands 100 percent, either. The law allows us to give them 75 percent, which is far more than a majority of the funding. Again, I am not here to argue against the Governors' Association. The reality is, if we pass the supplemental, with the $100 million supplemental request, the funding would be at 75 percent. If the House and Senate in their wisdom decide to make other changes and say it is important to them to have $200 million for UI administration, and then they will have to take the $100 million from somewhere else within that budget, and that is, of course, the extraordinary difficulty for all of us.

Chairman SASSER. Last year, the States paid up to $140 million of the administrative costs with their own money, and many of the States are in a very, very difficult situation—particularly those who have a very large backlog of unemployment claims pending and those who have been particularly hard hit by the recession.

I suppose my question would be, would it be the Department's intent to pass on substantially more of the administrative costs here to the States to handle? If it is the intent, I think we ought to know about it.

Secretary MARTIN. The budget and the supplemental request reflect, with the extraordinarily difficult constraints under the Budget Enforcement Act which, with your leadership, you helped pass the Senate last year, the choices the Department has had to make.

The choices are not always between ice cream and chocolate sauce. They are very tough. In your opening statement, Mr. Chairman, your excellent opening statement, you talked about the future for the American workforce and how we needed money in

skills training, and we have tried to do that in the budget; how we need better data, there are increases in data collection in the budget.

There are these mixes, but do I tell you that they all are ideal? Of course not, that would not be believable testimony. This is the best we believe we can do, and if, in your wisdom, the Congress changes it and takes some other options, then we will work under what the Congress gives us.

Chairman SASSER. Of course, in the budget agreement, as you know, last year there was a provision for emergency programs.

Secretary MARTIN. That is correct.

Chairman SASSER. It is the thought of many that we do have an emergency situation here, with the rapid run-up in unemployment. We have lost almost 750,000 jobs, I was advised, just in January, and this is placing a terrible burden on a number of our States. The question we are asking—and I really want to get just your opinion on this or your view—is can we look to the Department of Labor to assist in trying to convince the administration that this is indeed an emergency situation, to try to convince OMB—that is the one we have got to convince—that this is an emergency situation, or is it going to be something that we are just going to have to try to deal with here at the legislative level?

Secretary MARTIN. Mr. Chairman, before I came today, someone handed me a piece from the Wall Street Journal, indicating that you and two other fine Democratic leaders had joined in making this request of OMB. I have not seen the request, and so I obviously would not comment on it.

As I recall, from reading the budget agreement, it was very clear on what could be an emergency and what could not be. Having said that, I am not going to state any conclusion on this matter. I will be anxious to see your letter and the skill of the argument, because, as you know, the President has sent up a message about Desert Storm. I do not know if OMB has had an opportunity to review your letter—as I say, I have not seen the letter, so the request has not come to the Department of Labor in any way, shape or form, and I would hope I could see a copy of the letter.

Chairman SASSER. Madam Secretary, we are looking for friends here and——

Secretary MARTIN. I will be looking for the letter, Mr. Chairman.

Chairman SASSER [continuing]. And we are hopeful that we would find a friend here in the Secretary of Labor, and I am not giving up on that yet, because my understanding is that the Department of Labor did request $200 million in the supplemental to be used——

Secretary MARTIN. I assure you that the Department will try to be a friend and will——

Chairman SASSER [continuing]. And that the OMB scaled it back to $100 million, so we were really looking perhaps for a little assistance here from the Department of Labor. I am not going to give up on it yet, because before this thing is out, we may get some assistance from you.

Let me just ask this question: Currently, unemployed workers receive 26 weeks of regular unemployment benefits. After 26 weeks,

if they have not found employment, as we all know, they are entitled to no more funding.

Now, the Congressional Budget Office projects that there are going to be 2.8 million Americans in this situation in 1991, with their unemployment benefits of 26 weeks having run out. Now, there is an extended benefits program that could provide additional help to many of these people, but I am advised that the program is structured so stringently that very few States will trigger it during this particular recession.

In previous recessions, special 100 percent federally funded benefits were provided to allow for people to receive up to 55 weeks of benefits. Now, the new CBO report released Monday indicates that the same kind of benefit extension could be provided quickly for the current recession.

I know the President's budget did not include any proposal to provide further assistance to those who exhaust their unemployment benefits, but given the situation we are in now, would the Department of Labor support a proposal to provide specially federally funded benefits to unemployed recipients who use up their 26 weeks of benefits?

Secretary MARTIN. Mr. Chairman, I know you stated that very few States have triggered on under the EB program, but I would point out that Alaska, Maine and Rhode Island are currently paying extended benefits; Massachusetts, Michigan, Oregon, Vermont, and Puerto Rico appear fairly certain to trigger on soon; and Idaho, Pennsylvania, Washington, and West Virginia might trigger on. So that I just do not want to leave the impression that no States whatsoever are triggering on or can trigger on.

Secondly, as a former State legislator, I certainly am aware that many of the States are having difficult problems in terms of deficits or potential deficits. However, so is the Federal Government. Again, I have to keep coming back to the agreement reached last year on the budget.

It is really a two-part answer: One, the latest statistics and projections from virtually every private economist and CBO—forget OMB for a minute, because I understand sometimes that there is not always the greatest of rapport—suggest that the recession has bottomed out and the economy is coming back.

Were those figures to change, the Department of Labor, of course, would reexamine things. It must, it should, and it will, I want to assure you of that. But if we are coming out of the recession, expanding the EB program would not be the appropriate route.

Second, there are choices one has to make and the administration is proposing a budget that makes choices. I must say that I am very pleased to see that no one has said it is dead on arrival and we have not heard the usual complaints about the budget that we have all had to listen to, and perhaps even sometimes stated ourselves, in the past. I admit to some guilt in that.

This is a realistic budget. If there are changes to be made, such as in other programs that perhaps the next question may involve, or if anyone has suggestions in other areas, I know you will address them in the budget negotiations.

Chairman SASSER. I guess what I am getting at is many of us here in the Congress and many of the Governors across the country do feel that we have an emergency with this recession. The President has just sent a supplemental request to the Congress that asks for emergency designation for such items as increased funds for the Voice of America.

Now, the emergency designation, pursuant to the budget agreement that we made last year, means that programs do not have to be cut, if it is deemed an emergency, to avoid budget constraints. There are many of us who feel that adequate unemployment benefits in a time of recession should qualify for an emergency designation, just as the Voice of America applies for an emergency designation here.

It is my view and I think the view of many here in the Congress that when we have a situation here where we simply cannot service the request for unemployment compensation in many of the States, that ought to qualify as an emergency. I mean we are in the middle of a recession. We all hope that it will be a short recession and a shallow recession, as the administration has predicted and as some economists have predicted.

Other economists have predicted it will not be short and shallow. But whether it is short and shallow or not is small compensation for those who have lost their jobs, they are running out of unemployment benefits and they are standing in line, as they are in my State, for 6 weeks just to file.

So, I am hopeful, Madam Secretary, that if we get to the point here, and I think we will, of asking that this qualify as an emergency—frankly, I think some at OMB, their minds are undecided at the present time as to whether or not this does qualify for an emergency. I am hopeful that you and some of your colleagues at the Department of Labor will make your voices heard to OMB and let them know that, in your view, this is an emergency for literally hundreds of thousands of working men and women across this country.

Secretary MARTIN. Mr. Chairman, when any one person is out of work, it is an emergency within their family.

Chairman SASSER. No question about it.

Secretary MARTIN. I can tell you that personally, and I do not want to lose the concern for the needs of each unemployed individual, but you know, as chairman of this committee, that the budget standards were set because our hearts sometimes have led us to do things that may have been unwise. Whether or not this is defined as the national emergency, I would note that if this committee wishes to make changes, which of course is perfectly allowable under the Budget Act, then some other program perhaps that others would say of equal merit must bear the penalty. These are not easy choices.

I do not envy you nor those who made up the administration's budget, nor myself for having to make the choices, but we will make them. If there is more information that should be considered, of course, the Department of Labor will look at it.

Chairman SASSER. Senator Domenici?

Senator DOMENICI. Mr. Chairman, I note that on my side we have 3 Senators and they are going to be here for a while and I want them to participate. I told you I was going to have to leave.

I just want to make a point. It will not be a question. It appears to me that more than at any time previously, while it is obviously relevant to talk about unemployment—and I understand the Chairman's concern and obviously those issues should be looked at—I think the obvious is happening. You are here talking more about employment than unemployment and how we educate and train our people so they will be employed in the future in the kind of jobs that this new world will offer them.

I only suggest the following: I do not think the Department of Labor and the Department of Education can any longer be 10 blocks away from each other and only on occasion, perhaps socially around the Cabinet table, they meet. I believe the problems of American workers in the future is related to your department and related to the Department of Education, and are inextricable in a much different way than ever before.

We had an economist here and I asked him some questions the other day. I have a lot of respect for him, and we were trying to analyze what caused most people not to raise their standard of living in this kind of economy, and he gave me a very interesting phrase that I will leave you with. He said, "the skilled get richer and the unskilled get poorer." I had not heard it put quite that way, but I think that is what is going to happen in the future in this country. It is already happening.

Said another way, those who do not get an education and are not trained will be the unemployeds and the underemployed in the future, and I think that is as much your problem as it is the Secretary of Education, and I hope you will work on it, because I believe it requires all our efforts and innovation and resources to see what we can do to change that.

I thank you very much for being here today.

Thank you, Mr. Chairman.

Chairman SASSER. Thank you, Senator Domenici.

Senator Robb?

Senator ROBB. Thank you, Mr. Chairman.

I just have one basic question at this time, Madam Secretary. Thank you for joining us. I realize that the budget that has been submitted was prepared before you assumed your current responsibilities and you have not really had an opportunity to place your imprimatur on it yet.

I note, however, in one of the programs that I have had an interest in over a period of time, the Job Training Partnership Act reauthorization, that there is a proposed cut of about 4.8 percent, I guess it is, from the baseline, and about .7 percent compared to the 1991 budget. I was just curious if you had any thoughts at this point with respect to the form that reauthorization might take.

I am not really quibbling with the numbers at this point, I am just asking a broader and more general question about the kind of priority that you attach to that legislation and the ultimate form that it might take, how it might compare to the bill that was passed by the Senate and did not find favor in the House in a way that could become law last year.

Secretary MARTIN. Thank you for that question, and I do understand your point. The answer to your question is, obviously, the House and Senate differences over the JTPA legislation must be worked out. I really think that is going to happen very quickly. We will be presenting a proposal with some additional provisions that we have developed in the meantime. I think many of us would have preferred having the legislation pass last year, because of the improvements that I believe it brought to a program that is a cornerstone, it is a linchpin of the future for workforce training and workforce productivity.

Overall you can expect lots of similarities to last year's proposal certainly in terms of the goals, a more efficient auditing mechanisms, provision to enhance fiscal responsibility within JTPA so we can prevent problems. There are some problems and we want to make sure those are remedied. The Department has identified these problems and we want to make sure we do not see happen what happened to other Federal programs that were incredibly well-intentioned, that somehow got tarnished, really, by the image of lack of fiscal responsibilitie.

We also want to make sure the Private Industry Councils are even more closely integrated the program. So I am looking forward to a package of amendments that will enjoy both bicameral and bipartisan support, so that we can move as quickly as possible and we will be giving those to you soon, Senator.

Senator ROBB. Madam Secretary, I look forward to working with you on that.

Mr. Chairman, I have no additional questions at this time.

Chairman SASSER. Thank you.

Senator Bond?

Senator Bond. Thank you, Mr. Chairman.

Madam Secretary, it is a real pleasure to welcome you here. I would join with Senator Robb in expressing our interest in the job training partnership. Senator Robb has been a real leader in our jobs for America's graduates program, and I know that Mr. Jones and others know of our interest in that and we are most anxious to work with you and the Department and try to assist you in encouraging Congress to adopt necessary reforms. We believe we have seen how these programs can work, and we want to take as strong a role as we can with you on a bipartisan basis to see that they do.

I would commend you further for your very positive approach with the outline of programs that you see the Department of Labor pursuing to enhance employment. As our ranking member has said, we are very much concerned and must deal with unemployment and those mechanisms must be there, but at the same time we have to keep our focus on the ball of providing employment, particularly providing training education to the more disadvantaged and the less skilled in our workforce.

I was going to ask you a number of questions about the $100 million for administration of the unemployment insurance program, but you and the chairman have very adequately discussed that. I would say only that I agree with your characterization about how the budget agreement impacts all of this.

I did not have the pleasure of riding with the elephants and donkeys that led the parade last year in the forming of the budget

agreement. I had the pleasure of coming along with a shovel behind. As we say sometimes with tongue in cheek, now that Congress in its wisdom has established some limits on our ability to spend, I think we do have to establish priorities.

I am one who will always be arguing to provide as much money as possible on a discretionary basis to assist States in their administrative efforts, and I would support as much as we can the $100 million, recognizing that is a tradeoff. If we take more, we may rob some direct job training programs.

On the other hand, we also know that we have built in the direct spending on the unemployment benefits, and those will be triggered and they will be triggered automatically and will not be charged against other spending programs, if unemployment goes up.

However, if we are tempted to increase the generosity of those entitlements, we are going to have to give at the office, we are going to have to give some place else. For that reason, I think you have done an excellent job of setting out the very difficult and very tight constraints which we have put ourselves in for what I hope will be the broader national good.

Having made those brief introductory comments, let me say that I appreciate very much your interest in a particular situation that affects the St. Louis metropolitan area. As you know, we have seen a number of problems, the airline downturn, the cyclical downturns, and the Defense Department cutbacks have put a tremendous strain on the employment security operations in the St. Louis metropolitan area. The cancellation of the A-12 project put another 5,000 jobs on top of 2,700 jobs previously cut back, and with cutbacks in related areas, there are ever new faces in the workplace.

There are other industries which are cutting, as well, for various reasons, and we know that the title III funds that you have initially authorized of $1.1 million in emergency funding will take care of 5,000 of those.

I appreciate that very much, but the State of Missouri tentatively estimates approximately $2.2 million more are going to be needed to take care of the rest of the needs in that area, and I would like to hear your suggestions for us on whether we might be able to expect and how we should address the potential for other funds to deal with those, thank you, of course, profusely for the $1.1 million you have made already available.

Secretary MARTIN. Senator and former Governor Bond, I suppose you could address me as Madam Secretary, do you want to go to a Cardinals game.

Senator BOND. If that is what it takes, consider it done. [Laughter.]

Secretary MARTIN. As you know, it is not just because the St. Louis metropolitan area impinges on Illinois, too, and Illinois is getting a lot of publicity in the Cabinet lately——

Senator BOND. The old slogan of "no more taxes and no more Texas" has become "no more people from Illinois."

Secretary MARTIN. But not in this case, where it might impinge on the funds for the St. Louis metropolitan area, certainly.

Senator BOND. Labor is fine, no problems there.

Secretary MARTIN. We are looking at these requests and I can assure you that I recognize their importance since I come from a place with similar problems and since I strongly urged various secretaries to give my district prime attention. That is perfectly appropriate for the Members of the House and Senate.

There is not enough money for everyone's requests. We will look at them as carefully as possible, understanding the standards that apply and standards established by Congress and the dire needs of those who are disadvantaged. We will try to do our best, as fairly as I know how, and to take the expert advice of those who are active in the programs.

So, I cannot give you, nor should I give you a commitment for the rest of those dollars, Senator Bond, but certainly that project is foremost in my heart and mind.

Senator BOND. I appreciate that.

Thank you, Mr. Chairman.

Chairman SASSER. Thank you, Senator Bond.

Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

Secretary Martin, we are delighted to have you here. I did hope that you would be sitting on the other side of this particular seat here, but I, unlike some others, think there are not enough Illinoisans in the Cabinet. I think with your example——

Secretary MARTIN. We are going to have another one, with the help of the Senate Agriculture Committee.

Senator BROWN. I am looking forward to the efforts and the guidance that you are going to bring to the Department of Labor. I think your energy and your enthusiasm and your creativeness is going to make a great difference in the Department.

In that regard, I was hoping you would ask your folks to take a look at a couple of areas. One is the Economic Dislocated Workers Assistance Act. Obviously, it is an area where funding is tight, where we have gone through some cuts in the way of overall funding. Colorado, like other States, is going to have to live with those lower amounts.

One of the things I think would be helpful in the administration of the program is to review the way the regulations are written. If my understanding is correct, the Economic Dislocated Workers Assistance Act allows for retraining, but the regulations do not allow for upgrade training.

My impression is that the statute does allow some flexibility in the way those regulations can be written. The information I received indicate that flexibility in the kind of training that is funded, that is, allowing training that may relate more to upgrading than just retraining, would allow a much more efficient use of those funds.

If your attorneys agree, if they think there is some flexibility in the statute that would allow you to do that, I would hope the Department might consider redrawing those regulations to allow greater flexibility in the kind of training that is offered. I think it is a way that you could make the limited funds be more effective and be better used on the State level.

I have one other noncontroversial request of you, as well. My understanding is that the Department has the ability to write regula-

tions that would enhance the protection American workers receive with regards to the use of union dues being used for political activity. Specifically, my impression is that the Department has the ability to provide protection through regulations for those union members that would prefer not to have a portion of their dues used for political activities or go into political action committee funds.

If your attorneys agree, if they see that there is a potential there, I would hope that would be one of the areas that you would also consider providing protection for workers on.

It seems to me that the right to contribute to political campaigns or that opportunity is an important one to protect, but it is also important for us to make sure that people's money is not taken away from them and used for purposes that they do not agree with. I am hoping that those two areas would be ones that your department might give attention to and see if there is not a change in regulations that might have a beneficial impact.

Secretary MARTIN. Thank you, Senator Brown. It is a pleasure to call you that.

In terms of the EDWAA funding and a rewrite of regulations, I will examine this issue you have raised and find out why upgrading is not allowable, or if it really is allowable and there has been a misinterpretation. I will be happy to look at that.

Number two, I will examine your other question about union dues, to see what the flexibility of the Department is in both of those areas, and we will have those answers back to you.

Senator BROWN. Thank you.

I yield back, Mr. Chairman.

Chairman SASSER. Thank you, Senator Brown.

Senator Kasten.

Senator KASTEN. Thank you, Mr. Chairman.

Lynn, I want to welcome you and look forward to working with you in the future.

It is my understanting that program support is provided to segments of the population that have special disadvantages in the labor market. One of these segments is veterans. I know that the budget was not put together under your leadership, and I am assuming also that when the budget was put together, Operation Desert Storm/Desert Shield was not anticipated. But I simply note that funding for veterans' training, including training for disabled veterans, is targeted to receive a reduction in 1992 from actual 1990 and estimated 1991 levels.

At a time when we are asking for sacrifices from our military personnel in the Persian Gulf, I just think we ought to take a look at these numbers. I am assuming, as I said in prefacing the question, that these numbers were determined before we could anticipate what is going on right now. But I wonder if you could discuss the rationale that was used for the proposed reductions, and would it be possible for you and others in the Department to see if as a result of what has happened that there may be some adjustments within the total budget request to get more money for veterans and veterans' training.

Secretary MARTIN. I think the answer to the second part is obviously the Department feels very strongly that veterans should have appropriate training opportunities. This is not just something from

me, Lynn Martin, but from everyone in the Department, that we want to make sure that when the men and women who have served us so well in areas across the world—we have all had geography lessons we didn't know we were going to have—that they receive the full benefits and the help that they need to return to the private sector. I would quickly say that.

Number two, the program to which you are referring was set up with a sunset provision. Specifically, the programs involved were for Vietnam veterans, and 15 years after the fact they were meant to in effect sunset, as obviously the veterans who have served us so well in that area were also moved in not just to the workplace but into other areas.

So you are right in saying that there may have been good reason for doing it. But, we'll certainly try to renew these issues and there may well be changes within that area.

And let me assure the members of the Senate committee, who I know care deeply as we all do—this crosses all party lines—that the Assistant Secretary for Veterans' Employment and Training happens to be a Vietnam veteran who was a prisoner of war. So I assure you that we'll be very careful to ensure the men and women who serve us are treated well.

But I thank you for that question, just to make that clear. I think that is an important distinction to be made, Senator Kasten, and I'm grateful for the question.

Senator KASTEN. Thank you.

Actually, I just left the Finance Committee, where they are looking at a number of changes in veterans' mortgages and other kinds of things, and I think that across the entire government, obviously, we did not anticipate what is happening, and I think it is going to mean that in a number of different areas we're going to have to reopen certain educational benefits that were also sunseted or closing down.

I thank you for your answer, and I look forward to working with you.

Secretary MARTIN. Thank you. I should tell you that your Labor Department is also examining programs for veterans that we administer to see if changes should be made, and I would hope there would be legislation that we would bring to you, not for purposes of political posturing, but the kind of legislation that would best meet needs. In the main these are professional soldiers in Desert Storm, so it is certainly not the same as some previous conflicts; the circumstances are different. But nonetheless, especially for reservists and others, we want to make sure that they are able to come back to the workplace—which is a worry for many veterans. I would hope that the actions taken by the Department of Labor are ones that you will not only support but that you will feel are exactly the things this Nation should do for our veterans.

Senator KASTEN. Thank you.

Madame Secretary, if wages in excess of $20,000 are paid to farm labor in any calendar quarter, farmers are required to pay both Federal unemployment tax and State taxes on wages paid to employees for the entire year.

Now, inflationary growth in wages paid to farm workers has pushed many farmers into this tax bracket, with no increase in

their number of workers, days worked, or acres farmed; in other words, it is just inflation. What this is doing is placing a hardship on farmers.

Are there any plans to adjust the FUTA tax threshold for inflation since the tax was enacted, and if so what kind of a schedule could we talk about. And then finally, to avoid future bracket creep, would it make sense that this overall FUTA threshold be indexed now and be indexed to inflation?

Secretary MARTIN. Well, first of all, knowing your interest before in bracket creep for average citizens, your question doesn't surprise me. But I haven't got an answer on this particular question. My staff behind me is whispering "No current plans," and I could answer "no current plans", but I am going to have to look into this.

This is an area that is going to require a quick study by me, and while the quick answer seems to be no current plans, it is an interesting problem and one that perhaps should have a better answer than just that from me.

So let me assure you that we'll look into it and get an answer to you—it may not be the answer you want, but we'll get one, and it will be for my signature, too.

Senator KASTEN. This is just something that I'm hoping you and I and others can work on, and it is consistent with our concern about the way inflation has affected a number of different kinds of programs and different kinds of thresholds, and I think that this is one, particularly for the agricultural sector of Wisconsin's economy and similar to Illinois' and others, that we want to take a look at.

I thank you very much, and thank you, Mr. Chairman.

Secretary MARTIN. And Tennessee's and Virginia's, I should be quick to add here.

Chairman SASSER. Thank you, Senator Kasten.

One final question, Secretary Martin.

You heard, I think, Senator Domenici and Senator Robb and Senator Bond also express some concern about cutbacks in the job training programs in the present Department of Labor's budget.

Now, I'm well aware that this budget was put together before you were confirmed as Secretary of Labor, and it is really not your work product. But I will say this to you. Last week, this committee held hearings on income trends in the American work force during the decade of the 1980's, and we had a diverse panel who differed on many points. But on one point they did agree—that the fortunes of two groups of Americans diverged very sharply during the last decade. Those who were educated and skilled saw their incomes increase; they did fairly well. But those who were unskilled saw their real earnings decline dramatically and their job prospects declined.

All of these witnesses last week, who ranged from fairly liberal to fairly conservative, agreed that one of the prescriptions for future prosperity and for narrowing the income inequality gap between these workers, skilled and unskilled, was bolstering job training for unskilled Americans.

Now, just let me say this, and you may or may not wish to comment on it. Looking at the Department of Labor's budget for this fiscal year, it does not appear to me that job training was that much of a priority. We saw a continued erosion compared to the

baseline of the training and employment budget, cut by as much as 8 percent.

The Job Training Partnership Act—which our former Governors here are endorsing heartily as Senator Robb has said, was cut by almost 5 percent. The demand for job training climbs, and yet 224,000 fewer people will be served under the Job Training Partnership Act in 1992 under the budget that has been presented to us.

So I would just point that out to you and indicate that I think it is my feeling and I judge the feeling of a number of our members here today that we'd like to see much more emphasis put on job training and trying to narrow the gap between the skilled and the unskilled.

You may wish to comment on that; we'd be pleased to hear any comments you might have.

Secretary MARTIN. Thank you, Mr. Chairman.

First, since you said it was your final question, let me assure you that your courtesy today has been much appreciated.

And the reason for my slightly quizzical look is there are no cuts in many of the programs you mentioned in the budget.

Chairman SASSER. We're talking about cuts from the baseline.

Secretary MARTIN. Okay. We could, I suppose, then get into that argument. I actually have a street sign that says "Baseline Road" that I gave to Chairman Gray on loan for a brief period of time.

In the job training area there are no cuts in the amounts of dollars but there are some slight decreases in the amount suitable for certain nationally-administered programs. In some of the other programs named, though, the dollars are the same or there are some slight increases. I just want that to be clear.

I think the tenor of your question, though, is one of a shared belief, and that is, as Secretary Marshall and I were saying this morning, it doesn't require much but common sense to recognize that if people don't have skills, they are not going to be able to work in the future. It is not the people that are lacking. Their brains, their efforts, their desires are still there. We have to do a better job of making sure they have opportunities to develop their skills so that they can share the excitement and the joy and the belief in themselves that jobs and careers promote.

So not only is that an emphasis in the budget. In some ways, as important as job safety is—and it is—and as important as pensions are—and I can't tell you, I just happen to believe they are extraordinarily important—all of the things we do, if there is one thing that isn't just maintenance or protection, that is that leap to the future, it is in that area. And you have my commitment, not just my concern, but a deeply held belief that we must do it and do it better.

Chairman SASSER. Well, thank you very much, Secretary Martin, for appearing before the committee this morning.

Secretary MARTIN. I understand the busy schedules of the Senators—as I say, I tried to be one, so I understand—but if there are any Senators who wanted to ask questions and could not be here, I'll get those back; I'll be happy to.

Chairman SASSER. Well, thanks very much. You may get a lot of questions for the record, and you may not volunteer that again in the future.

Secretary MARTIN. Well, I might not get them back as fast as they'd like, but I really would be happy to receive them.

Chairman SASSER. We appreciate your spirit of cooperation very much, and there may be additional questions forthcoming.

Thank you.

Secretary MARTIN. Thank you very much.

Chairman SASSER. Our next witness this morning is the Honorable F. Ray Marshall. As most of us will recall, Dr. Marshall served as Secretary of Labor under the Carter administration. He has served as a professor of economics at several universities including the University of Mississippi, Louisiana State University, and the University of Texas at Austin, where Dr. Marshall currently serves at the Lyndon B. Johnson School of Public Affairs.

Dr. Marshall earned his doctorate in economics at the University of California at Berkeley. He has been a Fulbright Scholar. He is widely published as an authority on labor-related issues.

And quite frankly, it is my personal opinion that Ray Marshall has been the best Secretary of Labor that we have had in this country at least in the last quarter century.

So it is a pleasure for me to welcome before the committee this morning the Honorable Ray Marshall. We look forward to your statement this morning.

STATEMENT OF HON. RAY MARSHALL, LYNDON B. JOHNSON SCHOOL OF PUBLIC AFFAIRS, AND FORMER SECRETARY OF LABOR

Dr. MARSHALL. Thank you, Mr. Chairman, Senator Robb, members of the committee.

I have a prepared statement that with your permission I will summarize very quickly.

Chairman SASSER. The entire statement will be included in the record as if read, and please feel free to summarize it.[1]

Dr. MARSHALL. Thank you very much.

I really appreciate the opportunity to share some ideas with you on the questions that you have put to me about the needs of the work force during this recession and in the long run.

Let me say that what to do about the recession is less clear and a more difficult question than what to do about the long run. There are a variety of reasons for that. One is that we don't know how long the recession will last; nobody knows that. I hope the expressions by the optimists are correct, but there are also tremendous risks out there that could cause it to be deeper and longer than most people recognize.

I think a second reason it is important to prescribe for recession is because we don't really know how fast we can put things into place. My own view is that what we really need to do is to have much more flexible response capabilities than we do and to be able

[1] See p. 42.

to put in place in a flexible way an array of responses to whatever kind of recession that we tend to have.

Unfortunately, we don't have that now, and I think what we need to do is to try to concentrate on getting that done. We need labor market institutions that are more efficient and can respond with greater speed to the problems that we have.

Now, having said that, it seems to me that some of the longrun needs of the country and some of the longrun needs of the work force are things that we ought to do just about as fast as we can get them up. And I go into that in some detail in my paper. You have mentioned several times the job service, the unemployment compensation system, and our labor market information systems. I think we need to do whatever we can to streamline that.

In my own judgment, much more important than programs is to put in place an infrastructure that will make it possible at the local level and at the State level and at the national level for us to be much more responsive. And I think we need to have professional people involved at every level in order to be able to diagnose the problems that exist in a local labor market and to be able to fashion a response tailored to the problems that you find there.

There are a couple of areas besides streamlining the UI system and unemployment compensation. I think there is mounting evidence that we need to revitalize our infrastructure in this country. We have spent a lot of time during the last 20 years trying to figure out what caused the decline in productivity growth, and that is a serious problem because if you get a decline in productivity growth, the only way you can improve your output is to use a lot more labor, and that's what we've been doing, in families as well as in the country as a whole. That is a limited possibility in the long run because we are going to have a slowdown in growth of the work force during this decade and during the next decade, which means if we don't reverse the slowdown in productivity growth in both family incomes and national income, we'll suffer.

Now, there is I think credible evidence that the failure of public investments is a major factor in the slowdown. I cite a study that was done by David Alan Aschauer in my paper, and I commend that study to your attention. I think it is a sophisticated study, well-done, and suggests that over half——

Chairman SASSER. I missed something there—you said slowdown in what?

Dr. MARSHALL. Productivity growth, which if you look at what happened to productivity in the country, it was about 3.2 percent a year between 1947 and 1962, and then it was about 2.2 from 1962 to 1973, and it has been less than 1 percent or about 1 percent since then.

Well, his work suggests that more than half of that was due to a decline in public investments, infrastructure, transportation systems and the like, in the public sector—the slowdown in private productivity is due to the absence of these public investments.

So I would give heavy weight to simultaneously, maybe on an emergency basis, creating some jobs and repairing and revitalizing our infrastructure.

I also know that one of the most important things that we're likely to be able to do to improve our productivity in the long run,

as your opening comments suggested, is to strengthen our education systems. Well, there is a lot we could do with public service jobs to strengthen the education system. The reality of the education system is that we are not likely to have the resources under present arrangements to even keep the system the way it is now, because we're not likely to be able to get the teachers, and therefore you've got to restructure the work and have more work done by teachers' aides and others, and I think a national service program, heavily related to education, are two things that could be done immediately.

Now, I realize that we no longer have a public service employment program, and I think that is unfortunate. I think it would be better if in the Job Training Partnership Act we had that capability. We have some, like the Summer Youth Program, which is very good, and a model of what you could do with the public service employment program and a jobs program is what is done with the Summer Training Education Program, that is, to combine education of young people with summer work. That has demonstrated its ability to overcome one of the most important education problems this country has, which is the summer loss in learning of young people, particularly for disadvantaged people.

There is evidence that at least 85 percent of the educational achievement differential between advantaged and disadvantaged people is because of summer loss. Well, a combination of work and education, using the kind of education system that we have developed in the Job Corps and that has continued to develop can do a lot to overcome that problem.

My main concern, though, is with work force skills and productivity in the long run. Let me very quickly state the problem as I see it, which is spelled out in my paper at greater length.

Much of my analysis for this comes from not only my work as an economist but also from my work with the Commission on Skills of the American Workforce, which I cochaired with Bill Brock and Ira Magaziner. We examined this problem in international context, comparing the United States and six other countries, two in Asia and four in Europe, and detailed work in American companies, hundreds of companies in all of these countries, and we were essentially interested in the following question: How are companies adjusting to the more competitive environment that we are in, and what are the implications of that for work force skills?

What we knew, of course, was that a very important determinant of the performance of our economy is how well we adjust from the kind of economy that made the United States the world's leading economy by about 1926 to a very different kind of economy where the requirements for success are very different.

We had enormous advantages in that early economy that was mainly based on economies of scale, mass production and natural resources. We have enormous disadvantages in a more competitive world where economic success depends mainly on the quality of your human resources and the organization of work.

Now, if you look at the options for adjusting to this kind of world, you really only have two. One option is to cut your wages. That is what we have been doing, mainly, in the United States. The other option is to improve your productivity and quality. And

that is what we found a majority of companies in every other country were doing. We found a minority, only about 5 percent, of American companies were moving to what we call the high performance option, or improving productivity.

Why had they taken that view? Well, basically it was because the countries had developed policies to be high wage countries. We have no wage policy in the United States, and we have not developed a policy to be a high wage country. The consequence of that is that we have responded to competition mainly by a low wage strategy, and that is one of the reasons that real wages are lower now than they were 20 years ago; income they also are more unequal now than they were 20 years ago. About the only workers who are better off now in the United States than they were 20 years ago are college-educated workers. Therefore it is not just getting education through high school and getting some training that has made the difference. It is mainly the college-educated.

Now, most other countries have rejected a low wage strategy. Why? They see that it is a loser. They see that you are not going to be able to compete with Mexico with wage-cutting competition, or with Sri Lanka or with the Third World. That is a competition that you would lose and that you would not want to win because it implies Third World wages, but it also implies very unequal wages between workers within the same country.

Now, the question becomes why did we adjust in a very different way, and why are our companies different. I think one answer is policies that make it difficult for companies in, say, Germany, one of the countries we studied, to pursue a low wage strategy. Their view was, and I think quite correctly, that if a company cannot pay a living wage, then somebody is subsidizing it; and why, they ask, would you want to subsidize inefficient industry. Therefore, you are better off moving those resources into an industry that can be competitive in the international arena and adopting the policies that will make that kind of performance successful.

Let me say one of the other things we were told is that companies are concerned about our erratic and unsettled economic policies. We have high real interest rates, and that forces you to take a short view, so you are not willing to make the kind of investments that you need to make to be world-class and be high performance companies.

One of the things that was very consistent, though, is they said we don't have the workers to do that. They say we are good at the top; our colleges and universities are world-class, but that we have several very serious problems otherwise in being able to put together what we call a high performance work organization.

First, our public schools are not world-class. They are designed to turn out people to work in this mass production system. They don't have to think. Whereas in high performance systems, people have to think. They have to be able to handle data because that's one of the things that the machines make available to you. If you don't know how to impose order to chaotic information, then it is useless.

You also have to be able to communicate with a great deal of precision in that kind of work force, be a self-starter, and to work mainly within the framework of a positive incentive system rather than close supervision, so you can have a lean management system.

But unless you have fairly well-trained, well-educated people, you cannot do that.

The other reason that education and training is so important is because you are not likely to be able to develop and use leading edge technology unless you have well-trained, well-educated workers.

We found several stages in the development of technology. The traditional American system used standardized technology and relatively unskilled workers. Now, obviously in an internationalized world, that kind of work will not be done in a high wage country because if the technology is standardized, it will seek out low wages, so it will be done in other countries. Some American companies responded to that competitive situation with automation. They would say, well, that's the way we will solve the problem. It was ordinarily a disaster. Why? Well, basically it is because if you are going to make leading edge technology work and continue to improve it, you need to have people with higher order thinking skills. That is what we found that companies in every other country were tending to do so that they could concentrate on quality, for example, and quality in this world is terribly important because quality really means meeting your customers' needs. It means that in a competitive, consumer-driven system, quality becomes much more important than anything else that you do. In a producer-driven system, which is traditional in the United States, you didn't worry about quality but in this world you must, and that means you have to have a high performance work organization to develop and use the leading edge technology, and that means you have to have highly skilled workers.

Now, in addition to the school problem, the fact that our schools are not world-class, we have several other problems that cause us not to have the work force that can handle high performance organizations. A second problem is that we probably have the worst school-to-work transition system of any major industrial country. And I don't think there is even any debate about that.

We do almost nothing in this country for people who do not go to college. Very few American workers who do not go to college get any kind of formal training at all, whereas in other countries, most workers who don't go to college get professional, technical, skill training through apprenticeship or some other mechanism, to go into the work force and therefore be able to handle these high performance work organizations. Very few of our people can do that.

A third problem that we have is although we spend a lot of money in American companies on education and training—one estimate is $220 billion a year—almost all of that is spent on college-educated people, managerial training. Very little of that is spent on frontline workers. Whereas in other countries, a majority of the expenditures are for frontline workers. They spend a lot more on that than we do.

A final problem that we have is the problem that we started off talking about, and that is that we don't really have the infrastructure in this country to develop and deliver education and training and labor market services very well. We don't have a well-organized system.

I might also add that this is not a thing that we dealt with in the Commission on Skills in the American Work Force, but I personally would add as an important component that the family is the most important learning system, and our families are in trouble.

We have a much larger proportion of children in poverty than any other industrial country. What that means is that those poor families ordinarily are not good learning systems, and therefore children start to school behind. That's the reason why programs like WIC and Head Start can do so much to compensate for that.

Now the question becomes what should you do about all of that, and let me conclude by listing our recommendations and then respond to your questions.

First, I think we ought to develop a policy that we want to be a high wage country; that we ought to set that as one of our goals. If you don't have goals, then having policies and strategies have no direction. Every other country has built consensus that that is the way they're going to try to respond to this competitive situation that we are in. And it means then for government to do the kinds of supportive things that make that possible. Developing work force skills is one important part of that, but it is not the only part that you need to be concerned about. Then, once you have done that, you need a human resource development strategy. And how would you go about doing that?

The first thing is we ought to have some standards for people graduating from high school; we don't have. We recommend standards that would drive our education system. We have people graduating from high school who are still illiterate. When I was responsible for the Job Corps, about 18 percent of the high school graduates coming into the Job Corps were illiterate. Standards would help with the restructuring of schools, and they ought to be standards that we can get general agreement for in the country. We would call that a Certificate of Initial Mastery, as employers, educators, union people, worker representatives all agree on what these outcomes ought to be.

We actually have a group of people working on a national standards system.

The second thing we ought to do is pay attention to the school-to-work transition. A lot of people will not make it in school. A lot of people just don't adjust to school very well. The farther behind these young people get, the more likely they are to drop out. Dropouts are going to be one-third of our work force in the 1990's. We can't afford to give up on dropouts. They are either going to be assets or liabilities. Therefore we ought to develop an alternative system to see to it that people get the basic skills before they go to work. You can do that in youth centers or alternative training systems modelled after the learning system that we put in place in the Job Corps and in some other places that we can demonstrate tend to work.

Every major labor market could have a youth center that would be an alternative learning system. We recommend that it be possible for young persons, say, by the age of 16, if they are behind and not doing well in a regular school, to take their money with them and go to the youth center, for example, as a way to get these basic skills that they are not doing a very good job with in some schools.

That would create some competition for the schools to retain those people, but it would also create an alternative for many people to get their basic education.

In addition to that, we need to develop a professional training system in the country for the non-college-bound. We've got the rudiments of that in some of our community colleges and in the apprenticeship system, but we don't have a well-structured system to make it possible for people to get the kind of professional skills training that they get in every other country. We know how to do it, but we don't do it.

Then we ought to pay some attention to work force skills, education and training of frontline workers on the job. Now, how would you do that?

Well, we recommend that you require that 1 percent of payroll be spent on the training of frontline workers, and part of that be used to help restructure the work if companies need help with that.

If an employer is already spending 1 percent of payroll, it wouldn't have to spend the money if it met the standards; but if it did not, then it would pay 1 percent of payroll into a public fund to be used for workforce training and restructuring.

And how would you pay for that and the work force skills process? The 1 percent tax would be part of it, but the other way you would pay for it would be to use part of the money you've already got.

We also believe there is a lot to be said for the GI bill, that is, giving people 4 years of postsecondary education and training in any approved institution, because that would be a tremendous investment for the country. The GI bill is one of the highest-yielding investments this country ever made, particularly the post-World War II GI bill. The debate is not whether that was a high-yield investment, but how high was it.

We have some serious problems these days in young people being able to pay for higher education. What this would do would be to recognize that as an investment and therefore provide a way to pay for it.

I also believe we need to pay some attention to families as a part of our human resource development strategy. This, however, is my recommendation, not the Commission's. I believe we should have a family policy that would include child care, flexible work arrangements, and parental leave, among other things.

We ought to give a lot more attention than we do to parental education. Some States have done a very good job with that. You are not going to reform the schools without getting the parents heavily involved in it. We've had some amazing success stories in States like Missouri, Arkansas and some others where by educating the parents and making the parents teachers, they have been able to improve educational achievement of the young people. Probably the best way to break the cycle of poverty is to educate the mothers and have parental education and training as a way to do that.

Then finally we recomenned a more coherent infrastructure for labor market programs. We recommend a simple structure of employment and training boards at the local, State and Federal levels to give general oversight and evaluation of our employment and

training system—not to deliver the services, but to give oversight and to evaluate.

Mr. Chairman, we believe, and I personally believe very strongly, that unless we develop such a system, the United States will continue down the road it is going down now, and that is for wages to be lower and more unequal, and for the country to continue to lose its standing as a world-class economy.

Therefore, I hope the Congress will give a lot of attention to seeing to it that we reverse some of these trends.

Thank you very much.

[The prepared statement of Dr. Marshall follows:]

TESTIMONY OF RAY MARSHALL

before the
SENATE COMMITTEE ON THE BUDGET

on
"The Needs of Workers in the Current Recession and Beyond"

February 27, 1991

Introduction

This statement addresses the questions put to me in your February 12 letter inviting me to testify at these hearings: ". . .the needs of our workforce during the current recession and during the period required by the economy to regain full employment" and ". . .the long-run policies that should be pursued by the Federal Government. . .to produce a more skilled workforce and to improve worker productivity." Both of these are very important questions, but they are closely related. In both the short and the long run, workers need good jobs and supportive services to help them improve their productivity, skills, and personal development. Since our labor market policies are grossly inadequate for these purposes, the Federal Government needs to take the leadership to develop a more coherent system as rapidly as possible. I stress leadership because our problems are national, even though the private sector and state and local governments have major responsibility for human resource development policies.

Needs During the Current Recession

Of course, one of the most important needs of unemployed workers during recessions is adequate income support until they can find jobs. Unfortunately, the nation's main system for providing unemployment compensation is the weakest it has ever been during a recession. Our unemployment insurance (UI) fund is seriously

depleted and provides benefits for less than half of those who are out of work, compared with 75 percent of those who were unemployed in the mid-1970s.[1]

Our main agency for helping workers find jobs, the employment service, also has very serious problems. The service's already inadequate staff of 30,000 in 1981 has been cut to about 17,000 today. These inadequacies are symptomatic of our employment, training, and labor market institutions. Indeed, the United States probably has the weakest labor market infrastructure system of any major industrial country. There is a limited amount that can be done about this during the current recession, but we should rationalize these systems to help them meet the needs of workers, employers, and the labor market much more efficiently.

Unemployed workers' other main need is jobs. The main way to stimulate growth is to get real interest rates down. Unfortunately, recent reductions in interest rates have had very limited effects, mainly because of the weakened conditions of our banks; heavy public and private debt restructures; economic uncertainty; and stringent regulations brought on by the excesses of the 1980s which make banks reluctant to extend credit.

Perhaps one quick way to expand employment would be to expand public service jobs by enlarging the recently enacted community services act. I doubt that service agencies and local governments would have much trouble finding useful work for the unemployed to do. Programs like the Summer Training Education Project (STEP) could be expanded, as could the Job Corps, one of our most successful youth training and education programs. Since the main purpose of public service employment (PSE) programs would be to deal with *structural* employment problems, such a program should be authorized regardless of how long this recession lasts. This is so because monetary-fiscal measures alone are not very effective tools for addressing structural problems.

We also should start overcoming our serious public infrastructure deficits as fast as we can develop the means to do so. Although it might not be possible to launch a

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[1]Steven A. Holmes, "Fallback for the Jobless has Little to Fall Back On," *New York Times*, February 17, 1991, p. E-5.

significant program to deal with this problem in the short run, an immediate announcement of an emerging public infrastructure program would have a very beneficial effect on the nation's depressed construction industry. A public infrastructure program also would help improve productivity growth in the private sector. A recent Economic Policy Institute study by David Alan Aschauer, one of the nation's leading experts on the effects of infrastructure investment on productivity, concluded that "More than half of the decline in our productivity growth over the past two decades can be explained by lower public infrastructure spending. . ."[2] If public infrastructure investment for the last 20 years had been maintained at the 1950-1970 rate relative to GNP, the average annual growth of private sector productivity would have been 2.1 percent instead of 1.4 percent. This would have been a 50 percent increase in the average rate of expansion of our productive capacity. Despite ideological arguments to the contrary, investments in an effective transportation system (airports, highways, and mass transit), for instance, would greatly improve private sector efficiency. According to Aschauer, ". . .the pay-off in GNP growth from an extra dollar of public capital is estimated to exceed that of private investment by a factor of between two and five."[3] A good bit of our poor economic performance over the last two decades is thus due to a reduction in public investments. According to Aschauer, "when depreciation is taken into account, the rate of non-military public investment in the 1980s was only half that of the 1970s and just one-fourth that of the 1950s and 1960s.[4]

Critics will argue, of course, that all of these things cost too much, but it can be demonstrated that it will cost us much more in the long run not to make these investments.

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[2]David Alan Aschauer, *Public Investment and Private Sector Growth* (Washington, D.C.: Economic Policy Institute, 1991), p. 1.

[3]Ibid., p. 2.

[4]Ibid.

One of the most important things the Federal Government could do for workers during this recession would be to take highly visible actions to show that there was some concern about their plight. This could include an immediate action to create bipartisan consensus that the United States' main economic goal is to be a high-wage, just, full employment country.

This kind of expression is needed because the poor performance of the American economy in recent years had led to declining real wages and stagnant family incomes. This has caused parents to be increasingly fearful about their ability to adequately provide for their families, in spite of much longer hours worked by women. A mood that is rare for American families, at least since the 1930s, is for most parents to believe that things are going to be worse for their children than it was for them. According to a September 1990 *Washington Post*-ABC poll, for example, 89 percent of respondents "said that 10 years from now it will be more difficult for young people to afford college; 75 percent said it will be harder to find a good job; 87 percent saw worse prospects for buying a house."[5]

Long-Run Policies to Improve Skills and Productivity

Although the matters discussed in this section relate to long-run measures to improve the skills of the American workforce, steps should be taken immediately to gain national consensus for a comprehensive human resource development strategy that should be an integral component of overall economic and social policy.[6]

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[5]Barbara Vobejda and Paul Taylor, "Suddenly a Pessimistic America," *Washington Post*, November 6, 1990, p. A-1.

[6]This section is based mainly on the report of the Commission on the Skills of the American Workforce (CSAW), *America's Choice: High Skills or Low Wages* (Rochester, NY: CSAW, 1990), which I co-chaired. I have, in addition, relied very heavily on Larry Mishel and David Frankel's report, *The State of Working America*, 1990-91 edition (Washington, D.C.: Economic Policy Institute). I commend both of these reports to the Committee's attention. However, the comments in this statement are my own and do not necessarily reflect those of either the Commission or the EPI.

I would like to place my recommendations for improving the skills of the American workforce in context by first outlining some of the main strengths and weaknesses of the American economy and then discussing the nature of the forces that are transforming the global economy from one where the United States had substantial advantages to one where we have serious disadvantages. A nation's long run economic success or failure will be determined mainly by how well it adjusts to this more competitive global economy. The two most important determinants of how well we make this transition are the quality of our economic policies and the skills of our work force. Although the United States has serious problems in both of these areas, this section primarily addresses the work force skills problem.

Strengths

The main strengths of the American economy are:

1. A relatively high average level of income and productivity. Despite gains by other countries, the United States still has the highest per capita income of any major industrial country in terms of purchasing power parity. The relative position of other countries (U.S.= 100) for 1973 and 1988 respectively were: Canada: 83 and 94; West Germany: 69 and 72; Japan: 59 and 73; Sweden: 74 and 76; and the United Kingdom: 67 and 69.

2. Although employment growth was much slower between 1979 and 1988 than in previous business cycles (1.68 percent versus 2.5 percent for 1973-79 and 2.24 percent for 1967-73), job growth has been larger in the U.S. than in most other industrial countries.

3. Partly because of high unemployment, lower energy prices, and declining real wages, inflation moderated during the 1980s, despite a very feeble increase in productivity growth of only a little over one percent a year.

4. The U.S. also has the world's strongest basic science and higher education systems.

5. Finally, we have some world class business organizations and considerable wealth based on our past successes.

In short, despite our problems, we are still the world's strongest economy and therefore have the potential to maintain our preeminence. However, our problems are such that we must move quickly to strengthen our performance. Otherwise, we could face much more serious problems after 2010, when the large baby boomer cohort reaches retirement age.

Weaknesses

The main weaknesses of the American economy relative to our major competitors include:

1. We have some serious systemic weaknesses. While some observers attribute such economic weaknesses as huge trade deficits, stagnant growth in productivity and incomes, and declining market shares to macroeconomic factors or natural catch up by other countries, the MIT Commission on Industrial Productivity's (CIP) detailed international assessment concludes, I think correctly, that ". . .U.S. industry. . .shows systematic weaknesses that are hampering the ability of many firms to adapt to a changing international business environment. In particular, the Commission observed six such weaknesses: outdated strategies; neglect of human resources; failures of cooperation [between labor and management and between companies and their suppliers]; technological weaknesses in development and production; government and industry working at cross purposes; and short time horizons."[7] The CIP found that the U.S. had positive trade balances in only two of eight key manufacturing industries it studied: chemicals and commercial aircraft. Those with growing negative balances include:

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[7]Suzanne Berger et al., "Toward a New Industrial America," *Scientific American*, June 1989, pp. 39-47; see also M.L. Dertouzes, R.K. Lester, R.M. Solow and the MIT Commission on Industrial Productivity, *Made in America* (Cambridge, MA: MIT Press, 1989).

automobiles, consumer electronics, machine tools, semiconductors, computers and copiers, steel, and textiles.

2. Wages in the United States have increased more slowly and incomes, already the most unequal of any major industrial country, became even more unequal during the 1980s. Hourly compensation in manufacturing for all employees increased only 0.32 percent in the U.S. between 1978 and 1988, while the production worker compensation fell by -0.41. These rates were the lowest for any major industrial country. The rates of increase for all employees and production workers, respectively, for some other countries were:

	All	Production
Canada	0.8%	0.58%
France	2.1	2.15
West Germany	2.37	1.89
Japan	2.08	0.92

The index of per capita GDP growth in the U.S. for 1979-88 was 86 compared with a weighted average of 100 for nine other industrial countries studied by Mishel and Frankel in *The State of Working America*, 1990-91. These analysts found that real compensation for American workers had declined by 9.7 percent between 1980 and 1989, and that wages and incomes had become more unequal--only the top 25 percent of wage earners experienced wage increases during this period. Real wage losses were particularly large for blue collar, male, and young workers and for those without college educations. Family incomes were maintained during the 1980s mainly because more women worked longer hours and in different kinds of jobs. Family incomes, nevertheless, became much more unequal: the top 20 percent of families' average incomes increased by 33.2 percent between 1977 and 1990, while the lowest 60 percent lost income--the bottom 20 percent lost 9.5 percent. According to a variety of measures of income distribution (Atkinson, Gini, and Theil), the U.S. had a more unequal distribution of income in 1979-83 than any of the ten industrial countries studied by the EPI;

Norway and Sweden had the most equal, followed by West Germany. (Japan was not part of this study, but also has relatively equal income distribution.)

The main reasons for the widening income distributions in the U.S. include more regressive federal, state, and local fiscal policies; declining real wages; and a relatively large shift in income shares from labor to capital, mainly because of much higher interest incomes and lower wages. Between 1979 and 1989, capital's share of national income increased from 14.9 percent to 19.3 percent, while labor's share fell from 74.6 percent to 71.9 percent, and proprietors' share fell from 10.4 percent to 9.6 percent. Labor's share is at its lowest level in the postwar period.

It also is disturbing that the proportion of the work force earning poverty wages increased from 25.7 percent in 1979 to 31.5 percent in 1987. In 1979-82, 22.4 percent of children and 17.1 percent of U.S. adults had poverty level income--the highest of any major country for both categories. Australia and Canada had overall rates of 12.2 and 12.6 percent, respectively, while West Germany, Sweden and Norway had relatively low rates (5.6 percent, 5.2 percent, and 5.2 percent, respectively). When these relative rates are converted to absolute poverty to adjust for purchasing power, the U.S. still has a higher rate than any country studied except Australia.

Over 60 percent of the drop in hourly compensation for American workers has been due to a shift of employment to lower-paying occupations. Between 1981 and 1987, industries with expanding employment had average annual compensation of $21,983 compared with $32,387 for those with shrinking employment, a difference of $10,404--the largest in the postwar period. Other reasons for lower compensation include weaker unions, international competition, and the shrinking real value of the minimum wage. Using market exchange rates instead of purchasing power parity, U.S. compensation for all employees in 1988 ($16.89) was below that of Sweden ($19.46), the Netherlands ($19.45), West Germany ($18.93), and France ($18.13), but above Japan ($15.05) and the United Kingdom ($11.84).

3. Although the U.S. still has the highest average level of productivity of any major country, our annual productivity growth was much lower between 1960 and 1989 than for other major countries: the U.S. growth rate was 1.21 percent, compared with 5.17 percent for Japan, 3.78 percent for Italy, 3.12 percent for France, 2.87 percent for West Germany, 2.16 percent for Sweden, 2.14 percent for the United Kingdom, and 1.82 percent for Canada.

4. Serious competitiveness problems resulted from the failure of the U.S. to develop a system to educate and train our non-college bound work force and a failure of most of our companies to develop strategies that will improve productivity, quality, and incomes. This weakness will be discussed below.

The Causes of Our Economic Problems

The basic cause of our economic problems relative to our own past and the recent experiences of our strongest competitors is, simply stated, we are having difficulty changing from the kind of economy that made America great to one that requires very different policies, skills, institutions, and work organizations. The U.S. is growing out of a largely self-contained economy where success was determined mainly by an abundance of natural resources, mass production, and economies of scale--all of which made it possible to achieve relatively rapid growth in productivity and personal incomes. Mass production created self-reinforcing cycles that greatly improved our standard of living.

A major problem for the mass production system was its periodic depressions because its productive capacity was greater than consumers' ability to buy. Unfettered markets and the mass production system also tended to produce growing inequalities in wealth and income. In the 1930s, however, federal policies (especially the strengthening of collective bargaining, minimum and prevailing wages, and income support systems) intervened to help moderate both of these problems, ushering in the longest period of equitably shared prosperity in history. Economies of scale, an abundance of natural

resources, and supportive public policies made the United States the world's strongest economy.

This mass production system was run by highly educated managerial, professional, and technical workers, who managed, solved problems, innovated, and made plans. Most frontline production work was organized to require only basic skills, and the schools were organized like factories to mass produce workers with those skills. This system, with its supportive public policies, made it possible for people with limited education to earn middle class incomes. But that no longer is possible.

The main forces that eroded the mass production system have been technological advancement and the internationalization of the economy, which has intensified international competition. Advancing technology has rendered the traditional mass production system obsolete. It has done so by introducing more flexible manufacturing processes and shorter production runs, thus eliminating the viability of traditional economies of scale. Internationalization has robbed the American market--in fact the entire American economic system--of its uniqueness. Economies of scale depended heavily on the ability to control the large internal American market. We no longer control the American market, not even among the goods and activities in which we have some advantage. We have relied on productive systems that used relatively unskilled workers and standardized technology. In a more competitive internationalized world we cannot pay American workers fourteen dollars an hour to do work that better educated Korean or Taiwanese workers will do for two or three dollars an hour, because in an internationalized world standardized technology can go anywhere, and has. We will have great difficulty competing under those circumstances.

Technology also has changed the nature of work itself. Machines are increasingly doing the direct work, and more and more of the work is becoming indirect. This is an important point, and it is hard for us to understand thoroughly. It is important because indirect work requires different skills from the routine, direct work that was performed under the mass production system. Information technology makes more data available to

everyone, and so the question of what one *does* with the data becomes a key determinant of economic success. If workers know how to impose order on chaotic information, they can improve the quality of products, solve problems, communicate with more precision, and thereby greatly increase the value of products. In fact, we in the United States are increasingly substituting knowledge for physical resources. Put another way, the knowledge content of products is increasing and the physical resource content is declining. We have not increased physical resources in American agriculture since the 1920s, and yet output has tripled and quadrupled, depending on the crop. Why? Not through increases in labor, land, or capital, but rather through improved knowledge and technology. And that is what is happening throughout our economy.

Information technology requires that people impose order on chaotic information, which is one of the most vital higher order thinking skills. Indirect work is also more likely to involve teamwork, and so a premium is attached to communications and interpersonal skills. Technology likewise requires problem solving and innovation; learning becomes a major activity on the job. The old learning done on the job was routine--workers learned by doing and by observation. Americans harbor a strong bias toward that kind of learning. The new internationalized world of information requires more abstract education. One cannot understand why an electric light shines without knowledge of the theory of electricity. More and more of our indirect work requires the manipulation of symbols or abstractions. Innovation and creativity, which by definition involve that which can be seen only in the mind's eye, are both abstract. Workers increasingly will have to learn to deal with abstract concepts.

The efficient use of modern technology requires, in addition, that decisions be decentralized as much as possible to the point of production, whether in the workplace or the classroom. Information technology is not used very effectively in a centralized system. That is what people in the Soviet Union and Eastern Europe are learning; that is what people around the world are learning. When used most efficiently, information technology is a democratizing and decentralizing process, and therefore will change the

nature of work. It places a premium on flexibility and reduces the need for bureaucracies. One of the main functions bureaucrats fulfill is the shuffling of papers, and machines can do that better than people. Bureaucracies also supervise and give orders. With advanced technology, it is more efficient to include more workers in productive decisions, so fewer bosses and inspectors are needed.

Internationalization also represents a shift away from traditional economies based on scale and natural resources. Natural resources have become relatively less important, and human resources have become more important. Technology makes it possible to substitute knowledge for physical resources, but it also puts a premium on the utilization of human resources at the point of production. That is where competitiveness comes in . Instead of relying on scale and physical resources, we now must be competitive in other areas. We must be far more concerned about quality, because the new system is driven mainly by customers and markets, where the old system was driven by producers. Henry Ford said customers could have any color car they wanted so long as it was black. Nobody would make a statement like that today, because the system is consumer driven. Quality is best defined as the meeting of customers' needs, and that is terribly important in a more competitive system. Instead of stability, the new system requires flexibility, -- and instead of economies of scale, we must be concerned with productivity in the use of all resources.

Essentially, we must choose between two strategies for competition. We can either compete the way we have been doing, by reducing our real wages, or we can compete by becoming more productive and paying more attention to quality. To do the latter, we need more effective and participatory management systems. If we want to have high incomes, we cannot simply use standardized technology. Low skilled workers and standardized technology will inevitably lead to non-competitiveness and low wages. We can try to combine low skills with high technology if we assume, as some of our businesses and military units have, that high technology does not necessarily require high skills. This might produce somewhat higher wages, but the evidence suggests that this

combination is not much, if any, better than the first option. It certainly implies lower wages than those that would result from combining highly skilled workers with high technology. Workers can develop and use leading edge technology much more effectively if they are well trained and educated and they have the ability to use higher order thinking skills to constantly improve technology on the job.

All this, of course, requires a high quality work force. How are we doing with our work force? As noted earlier, nobody knows. We know we have serious problems, but we have no good measures of work force quality. We cannot base our measurements on years of schooling because schooling does not equal education. We cannot base them on our expenditures, because in terms of expenditures and years spent in school we stand very high in the world (although we rank low among industrialized countries in expenditures for elementary and secondary education, where our most serious problems lie). We also rank very low on most measures of educational achievement, especially in math and education.

A good orienting hypothesis is that we are world class at the top, among professional, technical, and managerial workers, but have serious problems throughout the rest of our work force. Why do we do so well at the top? Because our colleges and universities are still world class. We spend a larger proportion of our gross domestic product on higher education than does any other country. We likewise maintain a world-class scientific system, and we have always imported a number of well-trained, well-educated immigrants. Finally, a few of our corporations offer world-class learning systems, because learning is one of the highest yielding investments a company can make.

Why does so much trouble persist among the remainder of our work force? Because, in the first place, the percentage of American children living in poverty is much greater than that of Japan or most major West European countries. And, with some remarkable exceptions, poor families are not good learning systems. Second, our schools are not world class. Third, we probably maintain the worst school-to-work transition system of any major industrialized country. Finally, our system includes a

considerable number of low-wage jobs at which very little learning takes place. We have been more concerned about the quantity of jobs than the quality.

The Commission on the Skills of the American Workforce

The Commission on the Skills of the American Workforce (CSAW) (*America's Choice*) found that 95 percent of American companies cling to the mass production organization of work. The Commission also found that a much larger proportion of companies in the other countries studied (Japan, Singapore, Germany, Sweden, Denmark, and Ireland) are shifting to more competitive systems. The most successful companies in the U.S. and other countries share the following characteristics:

1. They are quality driven and therefore establish closer and more cooperative relations with customers and suppliers. Mass production systems are producer driven and play suppliers off against each other through price competition.

2. They have lean management structures that promote horizontal cooperation and participative management styles, and decentralize decisions to the work place. This contrasts with the hierarchical, segmented mass production approach to management.

3. They stress internal and external flexibility in order to adjust quickly to changing technology and markets. The mass production system seeks stability through rules, regulations, and contractual relationships. High performance organizations achieve stability through quality, productivity, and flexibility.

4. The most successful enterprises give high priority to positive incentive systems to relate rewards to desired outcomes. Such incentive systems are important because the efficient use of leading edge technology gives workers considerable discretion. Mass production systems stress negative (punishment and layoffs) or even perverse incentives which make it more difficult to achieve desired outcomes, as when workers believe improving productivity will cost them their jobs. Mass production hierarchical arrangements, fragmented work, and adversarial relations discourage the kind of cooperation required for high levels of quality and productivity. Positive incentives

used by high performance organizations include bonus compensation systems; internal cohesion, fairness, and equity; job security; and the ability to participate in decision making.

5. High performance organizations develop and use leading edge technology through constant improvement on the job and by adapting advanced technologies produced elsewhere. They understand that standardized technologies imply competing mainly according to wages.

6. These enterprises give heavy attention to education and training of all workers. The mass production system stresses education and training mainly for managerial and technical elites. The most successful organizations know that higher order thinking skills are required for high performance and the development and use of leading edge technologies.

7. One of the most controversial aspects of high performance production systems is the role of labor organizations. My own view is that the right of workers to organize and bargain collectively is an important requirement for a high performance system. It is not a coincidence that companies in other industrialized countries that are taking market share from American companies usually have strong worker organizations, both through works councils and other shop floor organizations and trade unions. It is unlikely that workers will go all out to improve productivity unless they have independent sources of power to protect their interests. This is especially true in the transformation of traditional mass production systems where workers have feared that going all out to improve productivity might cost them their jobs. It is, moreover, difficult to maintain cooperative relationships between parties of unequal power. Sooner or later the stronger party will be inclined to assert unilateral control, ending the cooperative relationship. Finally, labor-management relationships inevitably contain elements of both cooperation and conflict. Adversarial relationships are therefore both inevitable and functional. The trick, of course, is to prevent conflict from making the relationship so adversarial that both sides are worse off. The greatest danger in the

American setting is that a diminished right of workers to organize and bargain collectively will, in the long run, make positive incentive systems difficult to sustain.

What We Found in Other Countries

The CSAW found that enterprises in other countries were much more committed to high performance work organizations than most of their American competitors. Despite very different cultures and social systems, these other countries have adopted the same goals and strategies, though implementation varies widely. They all agree on the following fundamental principles:

1. The need for consensus-based policies to actively promote high performance work organizations.

2. High academic expectations for all young people, whether college bound or not.

3. Well developed school-to-work transition systems to provide young people with solid, recognized occupational skills.

4. Public labor market organizations to provide training, information, and placement services for all workers. The United States invests much less in employment and training policies than other countries. In 1987, for example, we invested only 0.9 percent of GDP on these programs compared with 5.9 percent in Denmark; 4.8 percent in Ireland; 3.7 percent in France; 4.2 percent in Sweden; and 7.2 percent in the U.K. (*America's Choice*, p. 64).

5. These countries all value the skills of frontline workers very highly. Companies and governments are therefore strongly committed to providing lifelong training and employment opportunities to workers. While American companies spend only between 1 and 2 percent of payroll on training, two-thirds of which goes for management, leading foreign countries spend up to 6 percent of payroll and devote a significant share to frontline workers. Less than 10 percent of American non-college

educated workers receive any formal training. These other countries finance company-based training through general revenue or payroll taxes.

High performance organizations understand that learning is the most important thing happening at work. They also understand that adversarial relations with workers, suppliers, or public officials are major barriers to learning. They therefore structure these relationships to create positive incentives to share information and to facilitate learning.

The Commission did not analyze all of the reasons why so few American companies are pursuing the high performance option, but the factors include:

1. Inertia and hubris because the traditional system was relatively more successful here than elsewhere.

2. The U.S. has no national strategy to be a high income country and therefore has not created incentives and disincentives for companies to make the necessary investments to become high performance organizations. Indeed, our policies and financial institutions discourage such investments with high capital costs, uncertain and erratic economic policies, an ideological commitment to almost unbridled market forces, and relatively unfettered business decision making. Other countries have adopted high wage strategies because it is clear to them that low wage strategies imply low and polarized wages, which threaten democratic institutions as well as living standards. Leaders in these countries often argue that companies that do not pay wages high enough to make it possible for workers to maintain their families are being subsidized by governments or the workers. They therefore limit these companies' ability to pursue low wage options through collective bargaining and regulations.

3. We are especially handicapped by the absence of a coherent human resource development strategy to give frontline workers the kind of thinking and learning skills required for high performance work organizations.

Recommendations

If the U.S. wants to remain a world class, high income country, we must build consensus for that outcome and develop the strategies and policies to achieve it. Unlike our major competitors, the United States has no process to facilitate consensus. Adversarial relations like ours focus attention on differences, however small; consensus processes focus on, and therefore encourage cooperation to achieve, common objectives.[8]

In addition to developing consensus building mechanisms, the U.S. should develop macroeconomic policies to achieve a better balance between production and consumption by encouraging higher levels of investment in physical and human capital. We must, in addition, develop policies to translate our world class science into world class commercial technology.

To facilitate the development of a highly skilled work force needed for competitiveness and high performance work organizations, the COSAWF made the following five major recommendations:

1. A new educational performance standard should be set for all students, to be met by age 16. This standard should be established nationally and benchmarked to the highest in the world. Students passing a series of performance assessments that incorporate this standard would be awarded a Certificate of Initial Mastery (CIM).

2. The states should take responsibility for assuring that virtually all students achieve the CIM. Through new local Employment and Training Boards, states--with federal assistance--should create and fund alternative learning environments for those who cannot attain the CIM in regular schools. Once these alternative learning systems are in place, children should not be allowed to work before the age of 18 unless they have attained the CIM or are enrolled in a program to attain it.

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[8]For an elaboration of this, see Ray Marshall, *Unheard Voices: Labor and Economic Policy in a Competitive World* (New York: Basic Books, 1987).

3. A comprehensive system of technical and professional certificates and associates' degrees should be created for the majority (70 to 75 percent) of our students and adult workers who do not pursue a baccalaureate degree. The standards for these certificates and degrees should be defined by business, labor, education, and public representatives. These programs should combine general education with occupational skills and should include a significant work component. All students should have financing for these programs. It would be a wise public investment to guarantee to everyone who had attained a CIM four years of education and training in accredited institutions. This system could be patterned after the very successful GI Bill of Rights which provided education and training to over ten million veterans after World War II.

4. All employers should be given incentives and assistance to invest in the further education and training of their workers and to pursue high productivity forms of work organizations. The Commission proposed a system whereby all employers would invest at least 1 percent of payroll for this purpose. Those who do not wish to participate would contribute to a general training fund. Public assistance should be provided to help employers to move to high performance work organizations.

5. A system of Employment and Training Boards should be established by federal and state governments, together with local leadership, to organize and oversee the proposed school-to-work transition programs and training systems.

Family Policies

Economic and social policies should, in addition, include explicit measures to support families, especially our most valuable women and children.[9] This is so because the family is our most basic human resource development institution and because the employment of women has been, and will continue to be, a major factor improving

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[9]This section is based on my forthcoming *Losing Directions: Families, Human Resource Development and Economic Performance*, to be published by Family Service America later this year.

productivity, economic competitiveness, and family income. Indeed, without the increased employment of women over the past 20 years, family incomes would have declined along with real wages of male workers.

Because young women entering the work force have become at least as well educated as young men, they make an important contribution to our skilled labor supplies. At the same time, however, families have had to adjust to the employment of women outside the home. This creates serious time constraints for parents and their children. There is fairly consistent evidence that married women with children bear the brunt of these time constraints. How these time pressures are managed has important implications for the stability and health of families. Although families themselves have to work out these intrafamily relationships, public policy can help support families and facilitate parents' adjustment to their dual roles as parents and workers. Similarly, some companies have adopted family policies, but public policy should encourage all companies to make it easier for employees to perform their dual roles as parents and workers.

The Federal Government has already developed some important programs, like the Women, Infants, and Children's (WIC) program and Head Start, that help familiels, but these high-yield investments generally reach less than half of the eligible population and should be expanded to all eligible recipients. One of the best ways to break the intergenerational cycle of poverty is parental education, especially for mothers. There is, as well, mounting evidence that we are not likely to effectively restructure our schools without heavy parental involvement. Some states ahve therefore developed very effective programs for parental education, not only to help make parents better parents, but also to make them more productive workers and better teachers of their children.

There likewise is much evidence that one of the main problems for many families is that the pressures created by both parents working give them inadequate time with their children. A minimal first step to help with this would be the proposed Family and Medical Leave Act which would provide leaves without pay for adults who take short

leaves for illness or family reasons. Studies by the Institute for Women's Policy Research shows that, taken together, women who have babies but donot have protected job rights lose $607 million more annually than mothers who have babies and have protected job rights; GAO research shows that the costs of the proposed legislation to employers was far less than $200 million. Family leave would therefore be very cost effective.

Quality child care is another service that should be available to all parents, especially those from low-income families. There is, however, no one best way to deliver child care. We should, therefore, continue to provide tax benefits and encourage companies to establish work-based systems whereever appropriate.

The main goals of a U.S. child care system should be quality, accessibility, and affordability for low- and moderate-income families. The evidence suggests that services are gradually improving, but that much remains to be done. A National Research Council (NRC) panel concluded in 1990, for example, that

> Existing child care services in the United States are inadequate to meet the current and future needs of children, parents, and society as a whole. . .Of greatest concern is the large number of children who are presently cared for in settings that do not protect their health and safety and do not provide appropriate developmental stimulation. Poor quality care, more than any single type of arrangement, threatens children's development, especially children from poor and minority families.[10]

The NRC panel made five recommendations to improve the nation's child care system: (1) federal and state governments should expand subsidies to support quality child care for low-income families; (2) governments at every level should strengthen such child care infrastructure components as resource and referral services, caregiver training and wages, child care volunteer programs, the organization of family day care systems, and planning and coordinating processes; (3) Head Start and other compensatory preschool programs should be expanded for income-eligible 3- and 4-year-olds who are at risk of early school failure; (4) a federal initiative should be launched to develop

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[10]The National Research Council, *Who Cares for America's Children* (Washington, D.C.: NRC, 1990), p. xii.

standards for child care; and (5) "The federal government should mandate unpaid, job protected leave for employed parents of infants up to 1 year of age." With respect to the last point, "Our conclusion, based on a review of the available research and the panel's professional judgment, is that, in the long run, policies should provide paid leave with partial income replacement for up to 6 months, with job-related health benefits and job guarantees during the year."[11]

My reading of the evidence causes me to agree with the NRC panel's conclusion and recommendations. The evidence nevertheless suggests some additional considerations. First, as noted earlier, any child care system should recognize the great diversity of child care arrangements in the United States. This implies giving high priority to choice for parents. However, choice is not likely to be very meaningful without affordability, which means subsidizing child care for low- and moderate-income parents. These subsidies could take a variety of forms, but should be designed to encourage the development of efficient, high quality systems. Such systems, in turn, require the development of a child care infrastructure in each community as well as the training of child care professionals. Finally, one of the best ways to maximize individual choice, efficiency, and quality is to develop broad consensus for child care standards. These standards should be national, with appropriate flexibility for local differences. The NRC panel believes, and I agree, that we have sufficient evidence about quality child care arrangements to provide the basis for developing such standards. The incentive for caregivers to meet the standards would be to make those standards a condition for receiving subsidies and for being licensed.

Taken together, these recommendations provide a framework for developing a high quality education, employment and training system, closely linked to high performance organizations.

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[11]Ibid., xvii.

Such a system would give the United States a formidable competitive advantage. Clearly, however, the status quo is not an option--we will either become a world class country of high skills or a fragmented country with low wages for most and high incomes for the highly educated few. This outcome implies declining national power and a diminished quality of life for everybody.

Chairman SASSER. Thank you very much, Mr. Secretary, for a very thoughtful presentation this morning.

I might say that at least in the early part of your testimony, you certainly don't describe what I'd characterize as a "shining city on the hill" with regard to our situation here in this country.

Senator Robb?

Senator ROBB. Mr. Chairman, I'm going to have to leave. I join in your comments. I think it was an extraordinarily thoughtful presentation, and I hope it gets much wider coverage and that former Secretary Marshall will make those comments available. I have read some of the things that he and Bill Brock have put together, and I regret I won't be able to stay around. But this is the kind of testimony I think we need to hear more of, and I commend you for asking him to come before us.

Thank you.

Chairman SASSER. Thank you, Senator Robb.

Secretary Marshall, you said something in your statement that I found very interesting. I had long thought and have even stated publicly my opinion—having no objective data to support it—that the GI bill and the money we spent on the GI bill had something to do with the explosion in growth and productivity or rate of increase in productivity in the United States for a period of about 15 years.

What do you think of that assessment?

Dr. MARSHALL. I think that not only is it true, but there is substantial data to back that up. Congressional Research Service actually did an assessment of the World War II GI bill which I thought was very good, and it found very high yields.

Now, what economists in my branch of economics, which is labor economics—we deal with what we call human capital—I like to call it "human resource development" and not "capital"—but we have done a lot of work on that issue. What we have found fairly consistently—and a lot of it follows on the work that Theodore Schultz did at the University of Chicago on human capital for which he got the Nobel Prize in economics—Schultz demonstrated some very important realities. One, what technological progress and improvements in productivity really amount to is substituting ideas, skills and knowledge for physical resources.

We use no more physical resources in American agriculture than we did in 1925; in fact, we use less. And yet we have produced a great deal more. Why? Basically it is because we are substituting ideas, skills and knowledge for land, labor and capital. We are doing that across-the-board. If you look at what we do with communications, we no longer use hundreds of millions of tons of copper; we use a small computer chip and earth satellite and fiber optics. Well, that's a substitution of knowledge, ideas and skills for physical resources.

The other main thing that Ted Schultz demonstrated is that returns to human capital are much higher than returns to physical capital, yet many of our policies are geared to physical capital.

A lot of work has been done to ask the following question: What has been responsible for improvements in productivity in the United States since we have been keeping numbers on it? The fairly consistent finding is that 80 percent or more is due to factors

related to technology and human capital. Technology is human capital. The main thing about technology that is important is the ideas, skills and knowledge that went into the machine, not the machine. Eighty percent or more was due to that, and 20 percent or less was due to physical capital, and zero to natural resources. That is one of the reasons in the world, of course, that natural resource-rich countries are having a lot more trouble than countries like Japan and Germany and Korea and Taiwan, that have very limited natural resources but have made major investments in their people.

This golden era that the United States went through from actually the end of the Great Depression and the beginning of World War II up until the beginning of the 1970's was phenomenal. We have never had such a long, sustained period of equitably shared prosperity in our history and probably never in human history has there been such a long period of sustained prosperity, equitably shared.

The prosperity that we had before that and after that is much less equitably shared. I think one of the main factors that caused that to happen is that we were making higher education available to millions of people, veterans, who would not have gone to college at all if it hadn't been for that. I am part of that group. I would have had no chance whatsoever to have gone to college if it had not been for the GI bill. Now, some people might say that that shows you ought not to have it, but I think that you could multiply that by 9 or 10 million of us who were able to benefit from that, and that does contribute to this long period of success.

I would also say it was the fact that we had the mass production system, we had the world to ourselves, we did not have to compete; we had a backlog of technology that was developed substantially by the military—all of that contributed to it. But all of that would not have been as important.

Part of the basic message of Ted Schultz' work is that educated, healthy, motivated people are an unlimited asset, and therefore what you ought to worry about is not population quantity, but population quality, because they will put together the institutions to solve their problems—and that's what happened if you look at it.

I might say the other thing is we had supportive public policies in the country which we don't have now. We had creative pragmatism during this period. We didn't worry about what you called it. The GI bill itself was not considered to be government intervention or socialism or anything like that; it was a practical way to deal with a problem.

We developed a national transportation system. We had creative pragmatism, and all that supported the growth of the system that we have. But I don't think anybody would deny that what we did in education and particularly higher education was a very important reason for our success.

Chairman SASSER. You raised one other question. You said that 85 percent, if I understood you correctly, of the differential in education achievement levels between advantaged and disadvantaged occurred as a result of the summer loss.

Could you amplify on that, please?

Dr. MARSHALL. Yes. There have been fairly detailed and consistent studies both in connection with the STEP program that I mentioned, done by Private-Public Ventures in Philadelphia, and some work done at Ford Foundation, and there is a little volume put out on that that I commend to your attention called "Toward a More Perfect Union", which summarizes some of that research, by Gordon Berlin and Andrew Sum.

What the evidence shows is that if you test students at the beginning and at the end of summer, all students tend to have achievement loss, but that the low income students tend to have very steep loss at the end of summer. We don't know entirely why that is. You could conjecture, and that is of course that we know that the family is the most important learning system and that therefore family income is a major predictor of educational achievement. And many of those more affluent young people are with their families in the summer, and they are doing educational stuff—they are taking trips, going to camp and doing other things—whereas low income kids are more likely to be on the streets and therefore not keeping up. They might be learning some other things, but they are not learning academic skills. And therefore, the STEP program was able to completely eliminate the summer loss in mathematics. Actually, it put young people ahead in mathematics because math has been the easiest subject to deal with with these nontraditional learning systems, and to make it eliminate a good bit of the summer reading loss.

The way the program works is that you attach to the Summer Young Program, which is an employment program, two kinds of learning. One, personal conduct and how do you take care of your health and avoid the risks that most of our young people encounter in life, and therefore you are able to reduce with that part of it teenage pregnancies and drug and alcohol abuse and dropping out of school and getting involved with the criminal justice system.

Another kind of education and training and education that is attached to that is academic—making up your losses. And if you were going to expand a program on an emergency basis in order to deal with some problems, I would commend that to your attention as the kind of thing that we ought to do which would meet a number of needs at that same time. It would help with a lot of our school problems as well as help with the development of our people. But the detailed studies of that have been fairly consistent in the so-called summer loss phenomenon.

Chairman SASSER. Thank you, Mr. Secretary.

Senator Grassley.

Senator GRASSLEY. Mr. Secretary, I'm not going to challenge your critique of our low wage policy, but I would want to throw out a segment of our economy where I think we have had a very high wage strategy, and it has failed, and we are internationally uncompetitive because of it. I think it has led to the decimation of our U.S. flag fleet. Today only 4 percent of our foreign commerce is carried on U.S. flag vessels.

Let me give you just a little bit of background. In 1950, our flagships numbered 1,050 vessels; today we have only 360. In 1950, we had 56,600 seafarer billets, or jobs; today there are fewer than

10,000. In 1950, U.S. flag vessels carried 43 percent of our foreign commerce, and as I said today it carries 4 percent.

We have spent billions of dollars subsidizing U.S. flag companies and their employees, and these are very high-paid jobs; we still tend to slip further and further, failing to meet the challenge of international competition. And just recently along this line, I was disappointed to see the U.S. maritime interest fight so hard against having maritime subsidies discussed at the GATT negotiations. U.S. flag interests cry out about unfair competition, but then turn and run when we have an opportunity to find a solution to it.

I also refer to a recent article that Andrew Gibson, former president of Delta Steamship Lines and former Assistant Secretary of Commerce, had to say about the maritime affairs. He stated that maritime programs and subsidies such as cargo preference and operating subsidy programs have—and these are his words—"obvious defects that cry out for correction". He also warned that the American shipping industry faces the grave danger of becoming economically irrelevant.

One of the most blatant reasons for uncompetitiveness of the United States, of course, is that U.S. manning requirements far outnumber those of Europe and Japan. Many U.S. flag interests continue to bargain for 30-man crews, and while the standard manning for U.S. diesel-propelled oceangoing vessels appears to have settled at around 21 jobs, foreign crews for similar vessels number only 14.

Mr. Gibson also pointed out that the reason for this is that most foreign shipowners have developed extensive training programs for both officers and unlicensed crews, fitting right into your comments that we need to do more training.

He says that U.S. interests must follow suit, but won't. He said—and I think correctly, and these are his words—that "both existing law and current management and labor practices make the establishment of such programs almost impossible in the United States today. But apart from requesting a study by the National Academy of Sciences to investigate proper crewing levels, the U.S. Coast Guard appears to have little appetite for promulgating regulations to make competitive manning skills possible." End of quote.

So Dr. Marshall, I would like to ask you what sort of reaction would you have to this, but more importantly, from your perspective, what can we do that can endorse a government policy requiring new training programs and standards in order to push U.S. crew sizes to competitive levels?

Dr. MARSHALL. Well, thank you for the question because I think it is an important kind of insight. My view is that you get high wages by improving quality and productivity. You don't get quality and productivity necessarily by having higher wages. Therefore, when we use the term "high wage strategy", what we really mean is that you compete on terms that will make it possible for you to improve your productivity and quality and that therefore you have to pay a lot of attention to that and get what we call a high performance work organization. And a high performance work organization is one where you stress meeting your customers' needs, being productive in the use of all your resources, having a lean

management system and a positive incentive system. And you don't necessarily get that by legislated high wages.

If I believed that legislated high wages alone would solve our problem, then I would recommend that you all pass a law making the minimum wage, say, $100,000 a year or something. That would be ridiculous. And therefore that's not the way to come at it.

I think the best way to come at it is to say that in the case of the maritime case, for example, that if we need a certain maritime industry and we feel that for whatever reason, we've got to subsidize it, let's know what we're doing. But let's don't think that what we're doing is making them competitive in that process. You are not likely to do that. The only other restriction I would put on what they'd do if you want to create high performance organizations or induce them to be high performance organizations is that in the maritime industry particularly there are certain kinds of international labor standards that you would want to protect, like safety and health standards and the like, and you'd want to see that seamen had the right to organize and bargain collectively and to negotiate whatever wages the competitive situation would bring to them. But once you did that, then you ought to create inducement for them to become as efficient as they could be.

I don't believe that we ought to subsidize inefficient industry. I think that would be a huge mistake. If we conclude, though, that the industry is essential for whatever reason, then we ought to do whatever we need to do to keep what part we need for that purpose, but then let the market pretty much work on the rest of it if you protect the labor standards.

But by the same token, I make the same concern about any inefficient industry, any industry that can't become competitive, because you have to give an incentive to become competitive.

The American automobile industry was not competitive, and it was mainly not necessarily the wage situation in that industry, but it was the management situation. It had a hierarchical management system that was not geared to the kind of world that we are in now. And that is what General Motors has learned the hard way—when Toyota could come and take over one of its plants in Fremont, CA that it closed because it couldn't make it competitive, and they formed a joint venture called NUMMI, New United Motor Manufacturing Inc., and only changed the management—same workers, same technology, same plant—and within 11 months, was the most productive automobile plant in America. Now, they have learned something from that, Senator Sasser, and the Saturn plant in your State is more efficient, I think, than that Toyota plant. But they changed the management there, and I think that would have to happen in maritime or any other industry and that the rule ought to be fairly straightforward.

Senator GRASSLEY. I appreciate your open approach to it. We don't get that sort of discussion of competitiveness or review of the maritime industry inside the Beltway, and I don't know whether we ever will, but I'd like to see if we could.

I think, Mr. Chairman, what I'll do—I did have some statistics from a study Senator Domenici and I have had in this area, and I think I'll just insert that for comment, for printing.

Thank you.

Dr. MARSHALL. Thank you, Senator.

Chairman SASSER. Do you wish to insert that in the record, Senator Grassley?

Senator GRASSLEY. Yes, please.

Chairman SASSER. Good. It will be included in the record.

[The prepared statement and information of Senator Grassley follow:]

PREPARED STATEMENT OF SENATOR CHARLES E. GRASSLEY WITH QUESTION TO SECRETARY MARTIN

I want to thank the chairman and ranking member for calling for this hearing on the recession and our workforce. I know from my frequent visits throughout my home State of Iowa, that two of the three biggest concerns on Iowans' minds right now are the problems we are facing with unemployment and the economy. The third concern, obviously, is the crisis in the Persian Gulf.

I share these deep concerns, and therefore, in my view, this hearing could not be more timely.

Let me say from the beginning, how pleased I am that we have former Congresswoman Lynn Martin now as our Nation's 21st Secretary of Labor. I say this not only because I believe Secretary Martin to be a bright and dedicated public servant, but also I am pleased because the Secretary for 10 years represented a rural congressional district similar in many ways to my State of Iowa, and which faced the same excruciating problems of unemployment during the middle 1980's as our farm economy struggle. It is comforting and encouraging to have a Secretary of Labor who knows first hand the unique problems we face in the midwest with our economy and unemployment, and therefore, I look forward to working together with Secretary Martin in resolving these problems.

I would also like to lend my support to the comments made in today's testimony regarding the need to encourage government, business, and educational institutions to work in a more coordinated way to help individuals obtain the skills necessary for today's jobs. This is an area in which I have devoted considerable energy, and feel that it is a worthwhile approach.

I also have been very active in supporting efforts to encourage our senior citizens to continue their contribution to the workforce. Barriers must be removed in order for our Nation to benefit from the vast experience our seniors can offer.

QUESTION TO SECRETARY MARTIN

In looking at how we in Government can assist the private sector in helping the poor and disadvantaged, I want to bring up the problems that the salvation army has had with the Labor Department recently. Last year, the Department issued, what I considered misguided rules, that would force the Salvation Army to pay minimum wage to all of its participants.

It's argued that some other charitable organizations are required to pay minimum wages, so therefore, so should the Salvation Army. The problem, however, is that the Salvation Army's rehabilitation program isn't like other programs. They aren't just work programs. People in the Salvation Army's program not only gain work experience, but also they are given counseling, as well as food and shelter. It seems ludicrous not to take this assistance into account in determining fair payment. It seems to me that the Department could exercise the flexibility that is necessary to accomplish the greater good.

I have written to the Department about this matter, and I'm not quite sure what your position is at this time. There is an exemption process under the law. At the very least, why can't the department allow some exemptions?

I appreciate your comments. I would just like to say, that Senator Domenici and I asked the Congressional Budget Office to analize the costs of cargo preference and operating differential subsidies. If you take the data from the maritime administration which shows that cargo preference alone supports only 2,000 seafaring jobs, it comes out to about $415,000 per job that the American taxpayer pays out to maintain the labor agreements worked-out between seafarers and ship owners.

As long as Uncle Sam foots the bill, there will never be any incentive to become competitive in the international arena. This is another example of Government involvement through policies and subsidies, that actually hinder our national economy and competitiveness.

Chairman SASSER. Dr. Marshall, let me get on the same subject that I have discussed here with Secretary Martin. When the Federal Government fails to provide adequate administrative funding for the Unemployment Insurance Program, either the amount of services being rendered or the quality of them decline, or the States have to jump in and make up the difference with their own money.

Now, when States use their own money to replace administrative funds or to make up an administrative fund shortfall, they generally pass these costs on to the employers by increasing the amount of each employee's income that is subject to the State unemployment tax.

What effects do you believe these new costs have on business, and what reforms would you recommend to deal with that problem?

Dr. MARSHALL. Of course, the real problem is that you're putting tax on businesses at the wrong time. You are putting them at a time when they are in a recession, and that is one of the problems with that approach to things. My view about the——

Chairman SASSER. You might be interested to know the U.S. Chamber of Commerce agrees with you.

Dr. MARSHALL. And that is one of the reasons I think we should have been in better shape to deal with it when we weren't in a recession. You see, the worst time to fix an airplane is when it is in flight, and that's what we've got now with a lot of these things that we're trying to fix while they're flying. What you ought to try to do is fix it when it is on the ground, that is, fix it before you get into the emergency.

I think that Congress could serve the country very well by taking a hard look at the employment service, the unemployment insurance system, and the labor market information system. Those are the three main functions that that service performs, and they have many fewer people to do it now than they did before because we have cut back on people and resources at the very time that their work load has increased.

Now, I think they do a lot of things that I would not have them do in a rationalized system. I think they ought to give careful thought, for example, to doing away, for unemployment compensation purposes, the work registration requirement, which takes up a lot of time in the unemployment offices, and you could spend a lot more time counseling people to get jobs with that. It is a fraud, anyway; it is an amiable fiction that people who register for unemployment compensation are willing and able to look for work and are actively seeking it, because what they are really doing is they are laid off, and they are going back to the same jobs they were laid off from. We ought to recognize that as a reality, and we could do a lot, I think, to streamline the unemployment insurance system and at the same time do a better job, shift resources, to creating better labor market information, giving more counseling to unemployed people, to working to get employers to use the employment service more than they do now.

One argument that you'll get from a lot of people is that the system is so inefficient that we can't justify giving them more resources. Well, you are not going to cause systems to get more efficient by giving them fewer resources and not changing their man-

date. I think it would be useful to take a hard look at that whole process. We had an Unemployment Compensation Commission that made some very good recommendations under Wilbur Cohen, and I think we ought to revisit that—it has been over 10 years now that that commission report was made—and take a look at that and see what we need to modernize it. The reality is that you are not likely to have a very effective labor market information system or labor market delivery system without a good labor market information system at every level, that is, without a system to do the counseling, provide the data that employers need and that workers need to get jobs. It is a cornerstone of the employment and training infrastructures in all of the countries that have really good labor market systems—like the Scandinavians and the Germans and some others.

But what that would do would not be to wait until the airplane takes off and trying to fix it, which is what we keep trying to do. The best time to train people is when unemployment is high. What we try and do is start trying to train them when unemployment is low, because we've got this short time perspective that causes us a lot of long run inefficiencies and problems.

Chairman SASSER. Well, do you think we need to legislate specially funded, federally funded benefits, to provide additional weeks of benefits to unemployment compensation recipients?

Dr. MARSHALL. I'm a great believer in the extended benefits system, the EB system. In our time we also had the supplementary unemployment benefits system.

Let me also hasten to say that one of the things that commends that process to you is because you don't have anything else to do for the unemployed. If we had a different system, I would agree with the Swedes, for example, that the last thing you ought to do for the unemployed is to just put them on the dole; that you ought to try to refer them to education, training, get them jobs, and then if you can't find anything else, give the unemployment compensation, or if you judge that it really is a short run phenomenon—say it is a seasonal or cyclical phenomenon and not structural—because if all you are doing is providing unemployment compensation to people who have permanently lost their jobs, then that is not very efficient. Those people don't need unemployment compensation alone; they need unemployment compensation plus skills training.

In fact if you look at the mix, I believe the Swedes have probably the best labor market system of any major industrial country, and they spend much less relative to everybody else on unemployment compensation and much more relative to everybody else on education and training and getting people jobs and job creation.

If we had a jobs program you would not need to pay out a lot of money in unemployment compensation; you could get people jobs. I think unemployment compensation is a very valuable part of the system, but if you had a much more rational system, it would not be as big a part as it has to be in ours.

Chairman SASSER. Well, you heard my questions to Secretary Martin about the emphasis put in the President's budget on job training. Our research indicates that the Department's major umbrella training program, the Job Training Partnership Act, faces a

5-percent cut. That is going to mean 224,000 fewer people will be served under the Job Training Partnership Act in 1992 than in 1991.

From your vantage point, Secretary Marshall, does this budget make the right choices between high skills or low wages?

Dr. MARSHALL. Well, my view is that the Job Training Partnership Act did a lot of valuable things, but one of the worst things that it did was to greatly cut the funds available for employment and training activities. In fact it was less than half what we had had in the late seventies and early eighties, and you've got in many ways a much more serious kind of problem now. It is not necessarily the measured unemployment problem.

One of the reasons you get a lower measured unemployment problem is not because of fast growth in jobs, because during the decade of the 1980's we have had relatively slow growth in jobs, as I document in my paper; but what you had is relatively slow growth in the work force.

We have many more people with longer run needs—many more single heads-of-household, many more people who are high school dropouts and therefore need longer range training than we had then. The competitive situation is a lot worse now. We are much worse off as a nation, I think, now than we were during the 1970's, although we were much worse off in the 1970's than we were in the 1960's. And one of the main reasons that we are worse off is because we have neglected the education and training of our work force.

So I would not do that. I think we've got to get away from viewing all of these programs as budget costs and start viewing them as investments in our long run future—especially when we've got evidence like I've cited of the returns to the country from making these kinds of investments. And I think doing things that will improve the skills of people is a very high-yield investment, assuming of course that you put together an effective education and training system, which we don't always do—I hasten to point that out.

Like our student loan programs—you get a lot of fraud and the like in that because of the incentive system. You pay people for taking in students, not graduating them. If you ever wanted a perverse incentive system, that's it. It is almost as perverse as giving schools their money on the basis of average daily attendance for 2 weeks in October and then worrying about why you get dropouts in November and December and on down the road. The system encourages you to ignore dropouts. We need to pay attention to incentives in our public programs.

We need to have positive incentive systems for them just like we do for a company. You ought to reward what you say you want to get and recognize that an incentive system is either implicit or explicit, but it will produce whatever result you reward.

Chairman SASSER. Let me just ask you this question. How do real industrial wages in this country now compare to real industrial wages in Western Europe?

Dr. MARSHALL. They are lower if you use current exchange rates; that's the key to it, of course. One of the problems of making international comparisons is you've got to decide what you are using. But if you look at the current exchange rates, which is the thing

that is important for competitiveness reasons—it doesn't make any difference how much you can buy with that in different countries, or the so-called purchasing power parity approach to it, if you're talking about what effects it has on the prices of your products in international trade. The thing that is important for that is these wages, and in the United States now, we are 10th, 11th or 12th, depending on which countries you compare us with.

Chairman SASSER. In what—industrial wages?

Dr. MARSHALL. In wages of workers in the work force, yes.

Chairman SASSER. Total wages of workers in the work force, or industrial workers——

Dr. MARSHALL. That's a good point. I could supply you with that, and of course, BLS can supply you with good information on that, too. That's where I get mine, except I do get some from foreign sources which come to some different answers, but I think BLS is the best statistical agency in the world, and therefore what they do on these things tends to be fairly accurate.

But if you don't agree with the way they do it, they give you enough information to do it some other way, and I like that, if you don't agree with their definitions.

So what they show is that manufacturing compensation, which is a different thing—wages don't equal compensation because you've got fringes—and that is different, too, from unit labor cost, which includes productivity and wages combined. You can have high productivity and high wages and low unit labor cost. So it is not necessarily the case that high wages will necessarily cause you to be at a disadvantage.

The room for high wages, the only room, is productivity. So if you've got stagnant productivity, and then your wages are out of line and your unit labor costs are out of line, you'll lose competitiveness. But if you can improve productivity, then you've got room to improve wages.

But the answer to your question is that using current exchange rates, we are 11th or 12th among industrial countries in the compensation of American manufacturing employees.

Chairman SASSER. To what do you ascribe the decline in American productivity growth to over the past 15 years?

Dr. MARSHALL. Well, as you probably know, economists have been debating that, and there is great disagreement about what causes it—but there is nothing unusual about that. I guess it was George Bernard Shaw who said if you laid all the economists end to end, they'd never reach a conclusion.

Chairman SASSER. Or you'd never miss them.

Dr. MARSHALL. Somebody more recently told me: "If we laid you all end-to-end, it would be a good idea."

But that is best illustrated by all that work on declining productivity growth. But my own belief, though, having done a lot of work on it and knowing that we have serious measurement and technical problems—for example, the energy crisis tended to cause a decline in labor productivity because what conservation was all about was the substitution of work for energy. If you fix up a place, or if you lower speed limits, then what you're really doing is increasing the efficiency in the use of energy, but you are reducing efficiency

in use of labor. To put it a different way, you use more labor to produce the same output.

Some of our problem was in that measurement; we had a measurement problem. Beyond that, I think the main reasons for our slowdown in productivity growth is that we have had—I agree with Aschauer—I think a good bit of it is due to the failure of public investment. We don't always count how much it adds to the cost of our doing business to have a very poor air transport system, or to have poor roads and bridges and delays, and in most places very poor urban transit systems. And those public infrastructures, he argues, have been responsible for about half of it, a little more than half.

The other thing that seems to me to be important is that we are having great difficulty as a nation adjusting to a new world, and therefore there is great uncertainty about the future. In fact, most parents now believe that their children will be worse off than they were.

Chairman SASSER. The children believe that, too.

Dr. MARSHALL. Yes. And it is very hard to get business to make the kinds of human resources and physical capital investments that they need in kind of an uncertain economic environment.

Now, I think we ou[illegible]t to try to do some things to stabilize that and get greater certainty and get some agreement on where we want to go.

One of the reasons that most of our competitors are doing so much better on that is that they have economic policymaking processes that reduce the uncertainty that they have. They have a consensus-based forecast, for example, that they agree on the facts. We can't even get agreement in the United States on the facts with a lot of these things. But unless you can agree on the facts and get some agreement on what the potential of the system is, then you are going to have great difficulty for businesses making the kinds of decisions that they need to make.

I would put heavy emphasis on that. Part of the reason we are having trouble making the adjustment is not just the uncertainty, but because we don't have the people with the skills to be able to do that. That is the reason I would give heavy weight to work force skills as a way to improve.

We know a lot more about how to improve productivity than we do what caused it to slow down. And I put more faith in that; I know more about how we can get improvements in productivity, because we've got demonstrations to show it, than I do what caused us to slow down since the 1960's.

Chairman SASSER. Well, Secretary Marshall, thank you very much for appearing here this morning. You have been here now for almost 2½ hours, and I'd say that is enough punishment for anybody. But we do appreciate you being here, and we may have one or two additional questions for the record that we'd like very much to propound to you.

Dr. MARSHALL. I'd be very happy to try to respond to them.

Chairman SASSER. We are grateful to you for coming today and sharing your expertise with the committee.

Dr. MARSHALL. Thank you, Senator.

Chairman SASSER. The committee is adjourned.

[Whereupon, at 12:18 p.m., the committee was adjourned.]

HEALTH CARE DIMENSIONS OF THE 1992 BUDGET

TUESDAY, MARCH 5, 1991

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 10:05 a.m., in room SD–608, Dirksen Senate Office Building, Hon. Jim Sasser (chairman of the committee) presiding.

Present: Senators Sasser, Simon, Robb, Domenici, Symms, Grassley, Kasten, and Bond.

Staff present: Larry Stein, staff director; John J. Callahan, deputy staff director; and Kathleen M. Deignan, assistant director for human resources.

For the minority: G. William Hoagland, staff director; and Jim Capretta, senior analyst for social security, medicare, and health.

OPENING STATEMENT OF CHAIRMAN SASSER

Chairman SASSER. The committee will come to order.

We are pleased to have before us this morning the Honorable Louis Sullivan, the Secretary of the Department of Health and Human Services. Welcome, Dr. Sullivan; we are pleased to have you here this morning.

Let me say that the Budget Committee meets today to consider the health care dimensions of the 1992 budget. We are pleased to have you here, Dr. Sullivan, to discuss the health care budget with us today.

I don't think there is any debate that we have a crisis in our health care system here in the United States. Health care costs are rising really at an unrelenting pace, and total health care expenditures consumed 12 percent of the gross national product of the United States in 1989. Current estimates have that figure rising from 12 percent in 1989 to 15 percent of gross national product by the year 2000.

Medicare is one of the fastest growing parts of the Federal budget, and the Federal Government is the largest purchaser of health care in this country, perhaps the largest purchaser of health care in the world. Medicare consumes 60 percent of all Federal health care spending, up from 49 percent in 1970.

At the same time, paradoxically, millions of Americans today have virtually no access to quality health care. The health care system appears to be divided into three parts. One is medicaid, which serves the poor and has been expanding in recent years and

is a partnership program between the Federal Government and State governments. Medicare serves the elderly, and has helped reduce the burden of health costs for more than 33 million elderly.

But what is missing now is some system that provides health care for 32 million Americans. We have 32 million Americans who do not have access to basic health care and health insurance. We simply must do better.

We need to put in place, phased in over the long term, an affordable health care system for millions of American working families.

Now, we can all acknowledge here this morning that this is a massive problem. It is a truly daunting problem that has challenged the best minds in this country. Some would say that this is too big an issue to be addressed. To that I would simply say that this is a problem that is so large that we simply cannot continue to ignore it.

I would like to use the budget summit that we engaged in last fall as an example of what can be done. In that summit we set a deficit reduction goal, and then after we set that goal, we put in place a 5-year plan cutting current and future deficits by $500 billion.

Now, why can't we do that for health care? Why can't we set some national health care goals for 1995, or for the year 2000, and work towards them and achieve them over a period of years?

Perhaps we might start with a plan to ensure access for improved health coverage for children.

And, of course, we know we have got to deal with the problem of cost containment. Maybe we could look at the cost impacts of the use of new medical technology for starters. On the insurance front, we might want to deal with medical malpractice issues, and others might seek to have additional employer responsibilities.

But we do need a multiyear blueprint for a national health care program for all Americans.

The plan is not going to be cheap. This is not something that can be done on the cheap. It is something that is not going to happen overnight. But I think this President and this Congress should begin now to fashion a program to provide basic health services to all Americans, not just to the elderly, not just to the poor. Not just to those who can afford high quality health insurance plans, but quality, affordable health insurance across the board for literally tens of millions of Americans who do not get it today.

Having said that, I want to turn to our distinguished ranking member, Senator Domenici, for any comments he might wish to make at this time. Senator Domenici?

OPENING STATEMENT OF SENATOR DOMENICI

Senator DOMENICI. Thank you, Mr. Chairman.

Mr. Secretary, it is great to have you here. Let me just tell you that the absence of fellow Senators at this hearing is not an indication of lack of interest. It is just amazing that we are all in about the same boat. There are three or four hearings of significance for each Senator, and I guess we of our own accord continue to seek more of the same. So we can't be in three places at once.

But let me suggest to you that there isn't any question that you are leaving a very, very significant legacy as Secretary. Clearly, you are aware of the fact that all of the numbers and percentages that the chairman has cited are true.

Let me just give one that puts my notion of why we have to do something about cost of health care, the spiraling cost, into perspective in a little different way. You know, some are talking about adding more and more access without trying to do something about cost. My numbers would indicate that in the United States of America we spend $2,051 per capita—per capita, not per family—on health care. Canada spends $1,500. And I don't think the Japanese are ill-helped or ill-cared for, and let me suggest they pay about $917 per capita. That is an amazing number that, while it deals with health, also begins to tell us why maybe they can produce some major products cheaper.

You know, a Japanese car has about half the cost of health care in it that an American car does, for the workers. That is a pretty big item, and growing.

But let me suggest to you that you made some tough choices in your budget. I think it bears repeating, if not for us, for those who are listening and wondering what we are going to do under the budget agreement. When we set a cap for domestic spending, that meant that if you want to do new things and spend substantially more, you have to cut somewhere or reduce somewhere. It is no longer a day when you can break these caps, take it out of defense, or add it to the deficit, or ask for new taxes. We have made a covenant with ourselves that on discretionary accounts we will not exceed the cap. And if you want to spend more, as you do—$171 million more on infant mortality, $258 million more for child immunization, $41 million to combat lead poisoning, those kinds of increases—you have to cut some place. So you made some tough choices. And when there are criticisms of your having reduced somewhere, I hope those who are advocating this will ask, well, what would you do about the things we thought had a higher priority? We can't do both. We can't add everywhere. So I think you are on the right track.

Let me suggest to you that the chairman is right. These major programs, medicare and medicaid, it is incredible how fast they are increasing. By 1996, these two programs are expected to be 18 percent of the Federal budget all by themselves.

I think we don't want to criticize the programs because their spiraling costs are symptomatic of cost increases. But I believe we have to begin to make some concerted effort on cost and do the best we can on adding more access and coverage.

I have one criticism of your budget, and I make no bones about it. I truly believe the community health service center-type delivery system that has grown up in this country from about 20 years ago—in fact, it was started in Lyndon Johnson's era as part of the poverty program. I believe it has reached a state of maturity that deserves your serious consideration as a very efficient way to delivery primary care to poor people, and I think it is doing a very good job. You took some money out to put somewhere else. I don't believe Congress is going to do that. If anything, I think they are

going to increase community health service center money for those who are delivering that kind of service.

Having said that, I compliment you for taking an initiative in the medicare part B coverage area by saying to those who earn more than $125,000, income of more than $125,000, that they will pay more of their premium than they have in the past, which was paid for by the general taxpayer. I think that has to—we have to begin to address that kind of issue. It is a very big, big issue, and I think we have to start somewhere.

I look forward to your testimony today, as I am sure the chairman and other Senators do.

[The prepared statement of Senator Domenici follows:]

PREPARED STATEMENT OF SENATOR PETE V. DOMENICI

I want to join with the chairman in welcoming the distinguished witnesses for this very important hearing: the Secretary of Health and Human Services Dr. Louis Sullivan, Bob Maxwell, president of the American Association of Retired Persons, Robert Blendon of the Harvard School of Public Health, and Jack Meyer, president of New Directions for Policy.

I want to commend the Secretary for submitting a budget to us that stays within the budget agreement and yet finds room for some important initiatives. This budget devotes substantial resources to improving the health of children and minority populations, including $171 million in 1992 for a new effort to reduce infant mortality, $258 million for childhood immunizations ($40 million above 1991), $41 million for a new effort to combat lead poisoning ($33 million above 1991 funding), and targeting of the health professions student loan program toward disadvantaged students with $15 million in new capital.

The administration made some tough choices to fund these and other initiatives, and, although the final mix of increases and decreases may differ from the President's budget, Congress is going to have to make tough choices too to stay within the budget agreement. I look forward to hearing the views of the Secretary and the other distinguished witnesses on the choices that must be made in the coming months.

I am also anxious to hear the witnesses' views on some of the daunting problems in health care that require long-term solutions. At the Federal level, Medicare and Medicaid spending continue to grow almost beyond belief. CBO estimates Medicare will grow at an 11 percent average annual rate through 1996 and Medicaid will grow at a 13.3 percent rate. In 1980, we spent $45 billon on these two programs, or 8 percent of the Federal budget. In 1990, outlays were $137 billion, or 11 percent of the budget. By 1996, these two programs are expected to represent 18 percent of the Federal budget.

The growing of Medicare and Medicaid is symptomatic of what is happening in health care throughout the United States. We spend more on health than any other country. In 1987, we spent $2,051 per capita on health while Canada $1,515 and Japan spent only $917. In 1965, we spent 5.9 percent of our GNP on Health in 1989, we spent 11.6 percent and we are headed toward spending 15 percent by the year 2000 if we do not take some dramatic steps to reform our health care system.

Yet, despite devoting all of these resources to our health, many Americans have no health insurance and have trouble getting access to health care.

We must find ways to improve access to health care for those millions of Americans who have trouble getting services. But, we should also recognize that without some significant reduction in costs, Americans will never be willing or able to pay for more health care services. Businesses and families are already feeling squeezed by their health care bills without imposing new health financing requirements on them.

The budget contains two proposals that I believe will help stimulate the debate about how to control costs in order to increase access. First, if the Federal Government is going to play a larger role in financing health services for those who have trouble getting care, we will have to take a hard look at current Federal health care subsidies to see if they can be distributed more fairly. The 1992 budget opens up this discussion by proposing to increase Medicare part B premiums for beneficiaries above $125,000 per year.

Second, our current medical professional liability system is not working well. Perhaps as many as 15 out of 16 persons who suffer from negligent medical care never get compensated through the current malpractice system, and any physicians have stopped or altered certain practices in order to avoid medical liability problems. The current tort system is also very costly, in terms of insurance premiums and defensive medicine. The budget proposes encouraging the States to move toward significant reforms in this areas.

I look forward to the hearing the views of the distinguished witnesses on these and other important health care issues facing our country.

Senator DOMENICI. Senator Bond indicates that he won't have time for an opening statement, but he agrees wholeheartedly on the community health center part. Is that correct, Senator?

Senator BOND. And I have a statement I would like to submit for the record.

Chairman SASSER. Have you cleared this statement with Senator Domenici?

Senator DOMENICI. Yes, he did. And that is the way to get two for one here. [Laughter.]

[The prepared statement of Senator Bond follows:]

PREPARED STATEMENT OF SENATOR CHRISTOPHER S. BOND

Mr. Chairman, I commend you for holding this hearing on health care issues and the FY92 budget. I am glad to see our health care system recieve increasing attention and I am looking forward to hearing the testimony for our witnesses today.

In our inner-cities, residents are 25-40 times more likely than those of more well-to-do areas to be hospitalized for conditions such as diabetes and adult asthma. And our infant mortality rate is at a deplorable, inexcusable level. The U.S. ranks 18th among industrialized nations in its infant mortality rate. The black infant mortality rate is double the rate for whites. Something must be done.

There are many efforts that exist to expand access to primary health care services. Two federal block grant programs--the Maternal and Child Health Services Block Grant and the Preventive Health and Health Services Block Grant--help support primary care services to the underserved population. The federal government also helps provide primary health care services and access though grants and manpower recruitment. All of these programs target the underserved population.

There have been many studies that show the effectiveness of these programs that expand primary care services. One program, in particular, has shown dramatic success in reducing the barriers to appropriate health care services and affecting outcomes--the Community Health Centers.

I am going to quote from an HHS report written in March 1990 that says, "The effectiveness of community [health] centers is evidenced by the fact that Medicaid patients who use these centers have lower hospital admission rates, shorter lengths of stay, and make less inappropriate use of emergency rooms than similar patients who use Medicaid but who don't use a community health center. Similarly, health centers have had a notably beneficial effect on both white and black infant mortality rates, have reduced rheumatic fever and untreated middle ear infections, and have brought about an increase in the number of immunized children." For Medicaid patients, the per capita Medicaid cost is as much as forty percent lower than for Medicaid patients who don't use the health centers. These centers are on the front line of providing access in the underserved areas and deserve special attention by Congress.

Again, one of the most pressing problems--our embarrassingly high infant mortality rate--remains. The President is to be commended for recognizing this serious problem. The infant mortality rate in this country is a harbinger of catastrophe for a generation of our children. The Administration recently released plans for a 10-city infant mortality initiative dubbed "Healthy Start." However, the promise of hope for developing truly innovative solutions to address the problem is severely overshadowed by the administration's plans to redirect funds this fiscal year and in future years from the Maternal and Child Health Block Grants and from the Community Health Centers.

I am very concerned about our infant mortality rate. But if ever the metaphor fits, it fits here: Don't throw the baby out with the bath water.

I have been very involved in recent months working on health care reform through the Senate Republican Task Force on Health Care chaired under the commendable and able leadership of Senator Chafee. Senator Chafee deserves a great deal of credit for his efforts to address vital health care reform issues and for his leadership on this Task Force.

In 1990, we spent about $650 billion on health care in this nation. This is a staggering amount of money--more than Americans will spend over a generation to bail out the S&Ls. At the current rate of growth, we might be spending one out of every five dollars on health care by the year 2000! That's not very far off and we must, as a nation, address these issues in a very serious manner.

The issues surrounding the reform debate are very complex, but it is quite clear that something must be done to address the many shortcomings of our system. One of the most pressing shortcomings is the lack of access to health care by the poor of this nation. One factor in the access problem, as most people in this room are probably quite aware, is the 31 to 37 million uninsured people in this country.

One solution that I cannot support is the idea that some have advanced of creating a 100% federally funding national health insurance program. This would only lead to the kind of health care rationing like the kind we see in Canada and the United Kingdom. While their systems have some attractive features, I don't think that Americans are prepared to trade the shortcomings of our system for the waiting lines and rationing in these other systems. After the budget debate of 1991, anyone who believes the federal government should be the single-payor in a universally-mandated system should definitely think again.

However, I do believe that we must have a health care system where one hundred percent of the people can get the health care

they need. Access to care cannot always be bought by insurance and I think that is a fact that is many times overlooked. Don't misunderstand me, however, I believe that there are changes which must be made to make health insurance more affordable and reduce the number of uninsured, but that is <u>not</u> the whole solution. There are many areas in our inner-cities and in our rural countryside where there are not enough physicians and health professionals. Today, as we speak, there are 33 million people living in areas that are critically short of health providers. These underserved areas deserve our priority attention. These people cannot wait for Congress to stop bickering over what to do with the health care system. They need health care now.

I am looking forward to a very informative hearing this morning and I thank you, again, Mr. Chairman for calling this hearing on these inportant issues.

Thank you.

Christopher S. Bond

Chairman SASSER. Thank you very much, Senator Domenici.

Do you wish to make an opening statement or observation, Senator Simon?

Senator SIMON. No.

Chairman SASSER. Senator Robb, do you wish to make an opening statement?

Senator ROBB. No, thank you, Mr. Chairman.

Chairman SASSER. Well, thank you very much.

I am pleased to have before the committee this morning the Honorable Louis Sullivan, the Secretary of the Department of Health and Human Services. Just let me say that Dr. Sullivan has had a long and distinguished career in the field of medicine and health care. Dr. Sullivan graduated magna cum laude from Morehouse College and cum laude from the Boston University Medical School.

Since that time, Dr. Sullivan has served on the faculties of the Harvard University Medical School, the New Jersey College of Medicine, and the Boston University Medical Center. Dr. Sullivan has served as the dean of the Morehouse College School of Medicine since 1975. He is presently on leave from Morehouse to serve as the Secretary of the Department of Health and Human Services.

We are pleased to have you, Dr. Sullivan, and we look forward to your testimony this morning. You may feel free to summarize it if you wish. Your entire statement will be included in the record.

STATEMENT OF HON. LOUIS W. SULLIVAN, M.D., SECRETARY, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Secretary SULLIVAN. Thank you very much, Mr. Chairman. Thank you and Senator Domenici for your very kind remarks.

I am pleased to be here to meet with you to discuss our budget and our plans for the fiscal year 1992. I have submitted for the record my full statement giving a reasonably detailed overview of the proposals in our budget.[1] You are very familiar with those figures, so I would like to simply give a few highlights of some of our initiatives and some of our concerns.

I would like to focus some comments on our programs on behalf of our Nation's children and by doing that to highlight this administration's thoughts on how best to confront the many serious health and economic threats that face our children.

I would like to begin by first talking about another part of the world that I visited recently. At the request of the President, I visited some eight nations in Africa to assess the catastrophic rates of illness and mortality for children on that continent. While there, I witnessed an almost unimaginable tragedy. Millions upon millions of children are dying each year. They are dying from malnutrition, from dehydration, from dysentery, from malaria, from childhood diseases, and many other preventable diseases.

In many of the countries that I visited, the family structure has become completely shattered—shattered by disease, by poverty, and by despair. In some of these countries, the legacy of civil strife has ripped asunder the traditional sense of community that held many of these tribes together.

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[1] See p. 89.

Nevertheless, with sorely inadequate resources, valiant and dramatic efforts are being made by committed professionals and by leaders—most importantly by individuals on the village level—to take personal, direct action to solve these problems.

Strangely, Mr. Chairman, many of us in this country expect such a picture from abroad. The magnitude of these problems is truly beyond human comprehension. But the untold story is what is being achieved by local action and personal involvement.

When I returned, I told President Bush that we must do more to broaden our support for Africa, in cooperation with other nations and with international agencies, to help these committed people help themselves. I mention the devastation in Africa and the remarkable successes under way not as a counterpoint to our own problems but, rather, to underline the fact that there are similar tragedies here at home, in our own country. These tragedies need a similar commitment, a climate of personal involvement to address our own health care concerns.

Mr. Chairman, we spend the most on health care per capita in the world, as you have noted. Most of us have come to expect from our high-tech system the best trained professionals in the world and that this would somehow set us apart.

That belief comes from a false sense of security, a profound misunderstanding of our people, of the nature of disease and the impact of our social structures. As a result, the suffering of our own children is sometimes ignored and often misunderstood.

For example, in this country we have a shocking rate of infant mortality, higher than that of 23 other industrialized countries. Within the black community, the rate is even higher—twice as high as the national average.

In this country, we allow as much as one in every five children to live in poverty. Many of you know what that means. Once we get past the facts and the figures, beyond the textbooks, the charts, and the hearings, we find a world of desperation, of anger, of crime, and of premature death.

In this country, poor health has become endemic, or epidemic for our children, and for many their daily experience is virtually Third World. It is comprised of poor diets, of early and more frequent health problems, and it also comprises untold humiliation and deprivation. Virtual entrapment in a cycle of poverty ensures that future generations will walk in the same footsteps.

In this country, we are quite familiar with family breakups. One out of every two marriages ends in divorce. Thus, many children are raised in single-parent families, and our children pay a high price when a family fails.

Study after study documents that family breakups are correlated with higher rates of illness, of poverty, of domestic violence, of dropping out of school, of teen pregnancy, as well as trouble with the law. In fact, many of our children come to live in a world of disease, parasitic violence, and gang warfare.

It is shocking that homicide is the leading cause of death in our society for those under the age of 65, and it is the leading cause of death for young black males between the ages of 15 and 24. Some of our scholars and our social workers, our clergy and community leaders have tried to tell us about this depth of despair. To be sure,

we have sometimes heard them in the past, and we have sometimes acted on their wisdom. Now, we must listen even more carefully and act more wisely.

As policymakers and as a Nation, we can no longer afford to be ignorant or to shrug off responsibility or to set these problems on a shelf until a more convenient moment arrives. It is true that we need Federal dollars as part of our response, and I believe that our budget is a sound and prudent step in the right direction.

In 1991, at HHS alone, we devoted almost $5 billion for infant and child health services and research. This year, we must devote a substantial sum again. The President has proposed additional funding. We must work harder to cut the rate of infant mortality.

What seems to be missing are innovative, effective programs to persuade and to motivate women in high-risk areas to seek appropriate prenatal and perinatal care. In addition to our ongoing research efforts, we have determined that funds must be specifically targeted to areas where infant mortality is extremely high. Such targeted spending would make a difference and would save the lives of many babies.

The 1992 request includes a new initiative for community-oriented programs to reduce barriers to appropriate prenatal and perinatal care for pregnant women and their children. Over $171 million will be devoted in 1992 to these target areas. Some of this money, approximately $30 million, would come from programs already designed to deal with children's health problems. Most of the money would be new spending authority designed to tackle infant mortality in precisely those areas most in need.

Our new initiative will help high-risk pregnant women in target-[illegible]eas to utilize medicaid and other income support programs. We will also examine social and nonfinancial barriers that prevent women from receiving appropriate prenatal and perinatal care for themselves and for their infants.

We will also work to increase access to care for high-risk women and to develop treatment programs. After birth, children need access to essential programs. I am pleased to announce that we are requesting $6 billion in fiscal year 1992 for programs designed to improve access to care for children and youth. This represents an increase of $659 million, or 12 percent over fiscal year 1991 levels, for activities such as child care, Head Start, welfare services, and child protective services to abused and neglected children.

As part of this request, we are asking for approximately $4 billion for child care and development programs, a $366 million increase, or an 11-percent increase over fiscal year 1991, and a $2 billion or more than 100 percent increase over a 2-year period.

Head Start is one of the most important and one of the most successful governmental efforts to help children. We are asking for a total of $2.1 billion in 1992, an increase of $100 million over 1991, and an $817 million or 66 percent increase since President Bush took office. This will allow us to reach over 633,000 children, an increase of almost 180,000 children over a 3-year period.

State child welfare service agencies cope with family disruption and breakup. The 1992 budget provides $364 million for child welfare services, an increase of $90 million or a 33 percent increase over fiscal year 1991.

We also need to open our hearts and create homes for many of our children. The number of children in foster care now exceeds 360,000. Our budget includes $2 billion payments to States for foster care and for adoption assistance, representing $203 million more than 1991.

We will also continue our commitment to children in other programs. For example, Aid to Families with Dependent Children grows in 1992 to $11.7 billion, an increase of $839 million or 7.4 percent over prior year levels. This increase is a result of ongoing growth in caseloads, increases in States' payment standard, and a full implementation of benefits for unemployed parent families.

But we need much more than money. The President is doing his part, but all of us have a role. We need political as well as moral leadership. We need to revitalize our sense of community. We need to recognize our mutual need and our dependence on each other. We need to develop a steadfast resolve to end the suffering, the disease, and the death that we inflict on our own children.

One of the most threatening and most subtle evils facing our society is the erosion of basic values and the breakdown of the institutions that teach them, such as family and community. We must work to keep our families together. We must increase our efforts to strengthen our communities. In short, we must all accept our share of personal responsibility to create a better, safer, and healthier environment for our children. We must work together, individually and as a community, on behalf of the Nation's children, fostering a culture of character, a climate of personal and societal responsibility.

We saw so dramatically in Africa that governments are important with their programs. But many of our problems are symptoms of a culture of despair, indifference, and unconcern. These problems require us to change attitudes to cure illness, to make better decisions to reduce morbidity and mortality and to increase the vitality and fulfillment of our citizens' lives at all ages.

A culture of character is something that money cannot buy, but that our individual decisions can create. It must be a necessary, decisive element in our efforts to help our children survive and grow into healthy and responsible adults.

Mr. Chairman, the President and I need your help and the help of this committee. We need your support. Our partnership can be such a formative first step. Thank you.

Chairman SASSER. Thank you very much, Dr. Sullivan, for a very informative and eloquent statement here this morning.

[The prepared statement of Secretary Sullivan follows:]

STATEMENT OF LOUIS W. SULLIVAN, M.D.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

SENATE BUDGET COMMITTEE

MARCH 5, 1991

Mr. Chairman and Members of the Committee:

Thank you for inviting me here today to discuss the priorities for the next fiscal year for the Department of Health and Human Services. I look forward to working with you and the other Members of Congress in forming a budget which meets the diverse needs of the American people, especially the sick, elderly, and poor, while at the same time is responsive to the public demand for prudent management of public monies.

The President's fiscal year 1992 budget for the Department of Health and Human Services (HHS) is $525 billion. This represents 36 percent of the total Federal budget of $1.4 trillion, an increase for our Department of $39 billion or 8 percent in additional spending above 1991 levels.

Let me take this opportunity to review some of the highlights of the President's budget and its many goals with you. One of my primary objectives as Secretary is to ensure the continuing fiscal integrity of Social Security and Medicare. Social Security outlays, almost 55 percent of total Department spending, will increase by $19 billion over 1991. The primary reasons for this increase are 560,000 new beneficiaries and an estimated 5.2 percent cost-of-living adjustment. In all, the Social Security Administration's funds will provide cash benefits to over 42 million people in 1992.

We are proposing to modify the retirement earnings test for

Social Security beneficiaries. The modification will provide an incentive for older Americans to continue the valuable contributions they make in the workplace without penalty to their monthly Social Security check.

I am also committed to improving the cost-effectiveness of Medicare. In 1992, Medicare benefit outlays under current law would increase to a total of $124 billion, or 11 percent over 1991 levels an unsustainably high rate of growth. In order to manage this continuing rapid rate of growth of Medicare, the budget includes a set of proposals designed to enhance efficient and cost-effective delivery of health care, eliminate excessive and duplicate payments, and make reimbursements more consistent and rational. These proposals will save the Medicare trust fund approximately $3 billion in 1992 but still result in an increase of 9 percent above the current level.

Specifically, the gradual reduction of the indirect medical education adjustment factor for prospective payment hospitals, and the refinement of durable medical equipment payment methods will provide reimbursement that is closer to the actual costs of delivering care. Eliminating duplicate payments by instituting single fees for specified service practices, and making payments to physicians more consistent and rational, will further my goal of ensuring that all Americans receive the well managed health care services they deserve. The budget also includes $63 million

for medical effectiveness research designed to enhance the use of high quality, cost-effective medical practices.

We also have several proposals to increase fairness in the Medicare program. We propose asking wealthier beneficiaries to pay a greater portion of the cost of their care, thus reducing the current general revenue subsidy for them. Raising their Part B premium to cover three-fourths of the average cost of care will result in a better match of government assistance to need, while retaining a significant incentive for continued program participation. Furthermore, we propose extending coverage under Part A of Medicare to State and local government employees who are not now covered so that treatment of all State and local employees is consistent.

In addition to improving the Medicare program, my Department is pledged to strengthening the health of low-income and minority persons--especially in terms of reducing infant mortality and increasing access of disadvantaged and underserved populations to needed services. Our most precious national asset is our children. In each child we witness the potential and promise of life, and my Department is dedicated to helping children obtain a healthy, safe start on their journey.

While the rate of infant mortality has declined each year, I am still disturbed at its shockingly high level, particularly for

our minority citizens. For example, the infant mortality rate in the Black community is more than twice that in the White community. Moreover, the United States ranks 24th among other industrialized countries in its infant mortality rate.

Last year we devoted almost $5 billion to infant and child health services and research. This is expected to increase to $5.5 billion in 1992. Within this total, the Department will target $171 million on communities where infant mortality is extremely high. This initiative will organize and develop community-oriented programs which will reduce barriers to appropriate prenatal and perinatal care for pregnant women and children, and reduce an unacceptably high level of infant mortality. Also the 1992 budget projects an additional $350 million to be spent on low-income pregnant women as a result of the recent Medicaid eligibility expansions.

We are also committed to increasing access to health care for minority, disadvantaged and underserved populations and to assure the availability of financial opportunities for trained health care professionals to serve these populations. In 1992 we propose spending $170 million for these activities, an increase of more than 28 percent compared to the previous year. Prominent elements of this initiative include expansion of the National Health Service Corps recruitment program, expansion of the Health Professions Student Loan program, and the establishment of a new

Federal construction program to enable historically black colleges, universities and similar institutions to improve their research infrastructure.

Another vital aspect of this year's budget focuses on better access of children and youth to needed services. Our children must be raised in a stable family environment -- an environment that offers a loving home, good role models and economic security. Our 1992 budget requests over $6 billion for programs designed to improve access to child care and services for children and youth. This represents an increase of $659 million or 11 percent over 1991 levels.

We are requesting nearly $4 billion for child care, child development, and child welfare programs, a $366 million or 11 percent increase over 1991. These funds include $732 million for the new Child Care and Development Block Grant and $300 million for At-Risk Care grants, both enacted by Congress at the end of 1990.

Head Start is one of the most important and successful governmental efforts to help children. The $100 million increase for Head Start will allow us to expand services to over 30,000 additional children, thus reaching a total of more than 633,000 children. This represents an increase of over 180,000 children since President Bush and I came into office. At the same time,

efforts in 1992 will be devoted to assuring consolidation and improvement of the gains achieved over the past two years by properly managing the large infusion of funding for the program in 1990 and 1991. I want to take this opportunity to reassert the President's and my goal of providing one year of Head Start experience to every eligible four year old, but now is the time to assure that the huge increases of the last two years are properly managed.

State Child Welfare Service agencies and Foster Care and Adoption Assistance programs assist dysfunctional families and create homes for many of our Nation's children. The 1992 budget provides $364 million for Child Welfare Services, a $90 million or 33 percent increase over 1991, and includes over $? billion for payments to States for Foster Care and Adoption Assistance.

The Department will also enhance efforts to protect children from abuse and neglect. In 1989, an estimated 2.4 million cases of child abuse and neglect were reported, an 11 percent increase over the previous year. The 1992 budget funds steps to increase coordination of child abuse and neglect prevention efforts, gather knowledge about innovative treatments for abuse, and implement a new National Child Abuse and Neglect Reporting System to enhance our understanding of the causes and extent of child abuse and neglect.

Finally, to ensure self-sufficiency and decrease welfare dependence, we are continuing to fully implement the Job Opportunities and Basic Skills (JOBS) Training program. We will spend $867 million to support current Aid to Families with Dependent Children (AFDC) recipients' efforts to participate in JOBS activities.

While it is important to react to the health care needs of the young, disadvantaged, poor, and elderly it is also important to concentrate efforts in areas which promote healthy behaviors and prevent disease for all citizens. We are seeking approximately $7 billion for prevention activities, a 9 percent increase compared to 1991. Health promotion and disease prevention work to preserve good health, personal dignity and empowerment.

Breast cancer remains one of the leading causes of death for women aged 35 to 54. Early detection and diagnosis are key elements to combating this tragic disease. The 1992 request includes $50 million to assist States and local health departments to offer breast and cervical cancer screening programs for low-income and disadvantaged women, an increase of 71 percent compared to 1991. Mammography will also be available for the first time to women over 65 as a covered service under Medicare.

As part of our prevention effort, we are also seeking

$258 million for child immunizations, an increase of $40 million or 19 percent over 1991.

Our budget proposal continues to place great emphasis on strengthening biomedical and behavioral research at the National Institutes of Health and the Alcohol, Drug Abuse and Mental Health Administration. The 6 percent increase of $581 million will fund ongoing research in the prevention and treatment of cancer, AIDS, heart disease, stroke and many other diseases. Other important projects include increasing our efforts toward mapping the entire human genome and developing drugs to treat mental health and substance abuse disorders. The total proposed expenditure on this research is $9.8 billion.

Recently, the Centers for Disease Control announced that over 100,000 Americans have died from AIDS. We must continue both our research and education efforts to reach all Americans with understandable and accurate prevention information. In 1992, AIDS research, prevention, and education efforts throughout the Public Health Service will receive almost $2 billion, a 50 percent increase since I took office.

One high-risk factor for AIDS is intravenous drug use. For this reason, and so many others, we have requested an increase of $108 million for drug abuse treatment, research and prevention efforts through the Alcohol, Drug Abuse and Mental Health

Administration. Included in the budget is $99 million to initiate a new capacity expansion grant focusing resources in areas where the current drug abuse problem far outstrips the capacity to provide rehabilitation services. Total funding for treatment, prevention, and research activities is at a historic high of almost $2 billion.

A critical part of the Department's mission is promoting the safety of food, drugs, and medical devices. We are seeking a 12 percent increase in resources to continue the revitalization of the Food and Drug Administration by enhancing the Agency's capacity to inspect a greater percentage of regulated products, replace obsolete equipment, and ensure that its review of desperately needed therapies proceeds as rapidly as possible.

We have crafted a budget that identifies our priorities and proposes the trade-offs that are necessary in a time of fiscal constraint. With this budget for 1992 we ensure that initiatives in health prevention measures, improved access to health care services, and increased family services are run at a higher level of quality and a greater degree of efficiency, and that costs are more equitably shared. The budget, for example, includes user fee financing of State survey and certification activities, and many of our food and drug activities. We also have proposed elimination or reduction of some low priority programs such as the Community Services Block Grant and the Low Income Home Energy

Assistance Program.

Working within the limitations imposed by the Budget Enforcement Act of 1990, I believe we have developed a budget that allows prudent management of our responsibilities. The Department of Health and Human Services touches the lives of our citizens at many points in the life cycle -- from pre-natal care for needy mothers, to child development through Head Start and AFDC, to health maintenance throughout adulthood, to financial support of the elderly through Social Security and Medicare. I am committed to preserving the health and well-being of families everywhere through increased access to health care, prevention of disease and effective and efficient program management. Working together, I know we will forge a budget responsive to the needs of those who need us most.

Chairman SASSER. As I said in my opening statement, we do have a crisis in health care in this country, and I am not sure the American people are willing to wait much longer for a resolution of this health care crisis.

Now, because of the recession, we are getting more and more people concerned about their health care situation. As they lose their jobs in the recession, they also lose their health insurance. In discussing this problem with many workers, I find that they are actually more concerned about losing their health insurance than they are in losing their jobs. Now, that is a very ironic situation. They feel that they might be able to move into another service-oriented, stop-gap job somewhere, but they won't be able to pick up their health insurance.

Now, over a year ago, the President, in his first state of the Union message, designated you, Dr. Sullivan, as the point man to lead a review of recommendations on health care access and cost containment. What is the status of your Domestic Policy Council review of this situation? Is there a group working on this problem right now?

Secretary SULLIVAN. Yes, Mr. Chairman. I have appointed, a task force in the Department, headed up by my Deputy Secretary, that has been examining several things. We have our own examination of our health care system under way, with the idea of coming forward to the Domestic Policy Council with findings and recommendations. We are also examining reports from other groups that are looking at our health care system, such as the Pepper Commission's work, and the work also of our Quadrennial Advisory Council on Medicare and Social Security.

The National Governors' Association also has a health care task force that is working with expectations of making recommendations later this year.

In addition, we have held a myriad of meetings with various groups, individuals representing the private sector, other governmental agencies. We met with the Association of State Medicaid Directors, with the small business groups, with groups representing large businesses, et cetera.

We don't have a national consensus on the approach that should address the problem. There is no question that there is a very significant concern among our citizens about the problems with our health care system.

To give a perspective, a few days ago I celebrated completion of 24 months in this position. The Senate confirmed my appointment on March 1, 1989. One of the first tasks confronting me was the effort to repeal the work of the Congress in enacting the catastrophic health care bill. I stated at that time that I felt that with the Congress just having enacted that legislation, it would be a mistake to repeal it. We needed to give it time to work to see if it would work and if adjustments would be needed.

Well, as you know, I was not successful, because the Congress did repeal that effort. One of the reasons that happened, I believe, is that there had not been adequate discussion and development of a consensus and an education of our citizens. Many of our citizens thought they were getting long-term care rather than care for catastrophic costs of acute illness. When we look at the issue of reform-

ing our health care system, which is an order of magnitude much greater than the catastrophic bill, we need to be sure that we do everything we can to develop a broad consensus with our citizens.

So as part of that, I have initiated what I call a national dialogue with our citizens. I have had a series of discussions around the country, in Atlanta, in the San Francisco Bay area, in Palo Alto, and also in one other city, I will have further discussions in Houston and in Chicago.

The reason is to try and explain our perspective on what some of the problems are. The first talk in Atlanta gave principles which I believe must guide us as we look at this. First, it includes such principles as this: Every American should have access to necessary health: second, that it should be, within the context of our present public/private system. We need to recognize, while we are critical of the deficiencies in our system—and they are there—we also need to recognize what is good in our system and build on that. But we have also addressed other issues in California such as why health care costs so much. Oh, the other city was at Yale in New Haven, CT, and that discussion was about the role of personal responsibility in health care. I maintain that as we look at health care reform, our goal is to bring costs under control, to provide access to those who do not have access now, including those 33 million or so uninsured, and to maintain the quality in our system. This is a comprehensive effort which has to really move on a number of fronts simultaneously.

One important front that has not been given sufficient attention—and certainly it has not been inculcated in our citizens as much as it should, is the role of prevention and health promotion and the role of personal behavior. The Public Health Service estimates that a minimum of 40 percent and perhaps as much as 70 percent of all premature deaths in our society—and that is deaths before the age of 65—are significantly influenced by personal behavior. One of those, of course, is smoking, and you know of my position on smoking. But there are many other things——

Chairman SASSER. Yes, I noted the "No Smoking" pin on your lapel this morning.

Secretary SULLIVAN. Yes, Mr. Chairman. I have other pins to give to you and other members of the committee who would like them. [Laughter.]

But the point, Mr. Chairman, is—one of the reasons our system costs so much results from our success, which I think that we need to recognize. We have the strongest biomedical research enterprise in the world. When I was a medical student, I took care of patients with paralytic polio. In 1990, we haven't received data indicating that there was a single case of paralytic polio in the United States; whereas, there still are cases in other countries around the world.

I could go down the list, but I will try and wind this up so we can get on to other issues.

There is no way we can bring costs under control, extend access to everyone, and maintain quality without a partnership with our citizens, and that is health promotion and disease prevention. I have maintained that we need to have a process of education so we can develop consensus. If we go through this process now, pass leg-

islation and then go through a process like that of 2 years ago, we aren't going to have another chance with our citizens.

We do hope to come forward later this year through our Domestic Policy Council with recommendations, but it is important for us to have this process so that hopefully we will have something that will make programmatic sense, that will also be politically acceptable.

Chairman SASSER. So I think judging from what you say, we can expect some sort of blueprint from the administration with regard to health care reform sometime in the early part of this year, hopefully, Mr. Secretary?

Secretary SULLIVAN. It is going to be later this year, Mr. Chairman, because of several things, including the fact that the National Governors with whom we have been working have indicated that their original date of May for their study has been moved back to sometime in August.

Chairman SASSER. Mr. Secretary when that proposal comes, I hope and trust that you will use your influence with the President to urge him to help sell the program. You made, I think, an excellent point in your statement about catastrophic health coverage. The problem with the catastrophic bill was that there were a few people here in the Congress with their fingers in the dike trying to hold back the flood of protest against it by many who did not understand it. Finally they were just overwhelmed and there was no voice in support of these Members here in the Congress who were trying to support the catastrophic bill. The administration said it supported the bill but you sure couldn't tell it by the lack of statements emanating from the White House on that particular subject.

Let me just ask you this. I was impressed with your statement about the plight of children in this country. I think the plight of children in our country is, frankly, a national disgrace.

We had a hearing on this issue just this past week, and we took some very powerful testimony about hunger among children, health problems among children, just all of the attendant problems that poverty brings.

Now, I, Dr. Sullivan, along with some members of this committee, have cosponsored a bill on child nutrition. We would increase funding for the Women, Infants and Children's Feeding Program—which happily the administration is increasing funding for to some extent this year—and we would bring food stamps to more children who are living in poverty.

Now, I know that you haven't had an opportunity to review our bill, but I would just ask you today in your capacity as a physician, do you agree that hunger and malnutrition is a problem among poor children in this country?

Secretary SULLIVAN. There is no question about that, Mr. Chairman. That is a problem we as a Nation need to address. My statement focused primarily on the problems of children because we have a number of problems in terms of health and social services available for our children, that we need to address both with our efforts here at the Federal level, but also in our communities. What we are trying to do at the Department of Health and Human Services with so many of our programs is to make up for problems of family breakup, child abuse, et cetera, We are committed to

these programs. To the degree that we are successful in keeping families together and strengthening them, those children will have a healthier environment in which to grow. It also means the pressure on programs such as our will be less. But certainly, yes, we clearly need to focus on improved nutrition and other problems with our children, because, finally, as you know, Mr. Chairman, it is an investment not only in the health, well-being and productivity of those children as future citizens and leaders; it is an investment in our Nation.

Chairman SASSER. Well, I couldn't agree with you more, Dr. Sullivan. I would ask you if you would, sir, at some future time to take a look at this child nutrition bill which I am sponsoring, along with a number of cosponsors here, and give us your views on it. I think if you could find it in your heart to support this particular piece of legislation, you would be a very powerful champion, indeed, and would be a great help to us in trying to assist in its passage.

I will turn now to Senator Domenici. Senator Domenici?

Senator DOMENICI. Mr. Chairman, I was going to ask Senator Bond, are you on a tight time frame?

Senator BOND. No; I would be happy to wait.

Senator DOMENICI. Dr. Sullivan, let me compliment you on your emphasis. As I understand it, you have indicated, along with programs and money, that we need a culture of character to change some of the ways we look at these problems, changing some attitudes, and that that is just as important in some instances as the program.

I want to back that up for you with some very startling facts that I found out in trying to take a serious look at the decade of the 1980's, because there are a lot of people running around saying what a bad decade it was for our people. And let me tell you I found that that is just absolutely untrue. Once the recession was over, the recovery of 7 years was probably the most significant economic recovery in our modern history, and more poor people came out of poverty than any program could do. In fact, more minorities came out of poverty during that period of time than any program we could put on the books.

But there is one huge negative, and it is unwed single heads-of-household and their children. That whole group did not respond to the economic recovery. If per capita went up for everyone—and it did. For those who say only the rich got richer, wrong—the poor got richer, no question. We now can put it down in graphs and show it in numbers. But that did not happen in this society for that group of Americans, and I believe then, without knowing the micro part of that structure, I believe the children of that lifestyle are the reason that we are getting the huge negatives on children's health, because I don't believe that is responding in that unit either.

Frankly, I don't think anybody has come upon a way to help with that problem. The so-called Moynihan welfare reform is on the books now. There are some saying it isn't going to work. I don't know if it is or isn't. But it is trying to address that kind of American problem.

I think it is an issue of character, too. I think we have to get at the problem of why. Why do we have so many of that kind of situa-

tions in this country? I can almost tell you that it is one of the intractable problems in terms of the American economic system. The others seem to be responsive. If you have enough economic growth and prosperity with reasonably good structure around it, people come out of it. But that one they don't, and I just want to tell you about that because I think it is very, very serious.

Secretary SULLIVAN. Thank you, Senator Domenici. Yes, we are very concerned about that problem because children in single-parent families—the overwhelming majority of them being female-headed households—have a four to five times greater chance of growing up in poverty than children with both parents. Indeed, minorities have enjoyed prosperity but there is a growing gap between those minorities who have been successful and who have participated in the prosperity, and those who haven't. That, indeed, is a worry to all of us, because those who are not on the ladder, experience despair and lose of hope.

Of great concern, are individuals who have less vested in our society and are more susceptible to violence and crime, et cetera. We all have a real interest in finding ways that we can help these individuals get on the ladder to help themselves.

I am more optimistic about the welfare reform that Congress passed in 1988. It is too soon, for us to have data. Among those are provisions to help young single mothers develop job and educational skills, tied in with giving them support for child care and medicaid eligibility for up to 18 months after they have found employment. Prior to that, there was a disincentive that existed.

We also have strengthened child support enforcement as well, and a number of other things that are necessary. With all of that, I agree that we need to have individuals and organizations in the communities helping these individuals receive the kind of orientation, hope, and vision that they need.

We are concerned and want to do everything we can to address that problem.

Chairman SASSER. Thank you very much, Senator Domenici.

Senator Simon.

Senator SIMON. Thank you, Mr. Chairman.

First, we welcome you, Dr. Sullivan. The President made a superb appointment when he made you our Secretary here, and I welcome your opening eloquent statement.

You started off talking about Africa, and this is getting out of your immediate jurisdiction, but it is of concern to all of us on this committee. Africa has 28 of the 42 poorest nations of the world. And if you exclude foreign aid to Egypt, Africa receives only 12 percent of the American foreign aid budget. This is an area where, frankly, we have to do better.

I am concerned with the budget on medicare. Illinois has lost 32 hospitals in the last 10 years. We have lost 22 in the last 6 years. And as you look at where those hospitals are that are closing, they are in Cairo, Illinois, they are on the west side of Chicago, they are on the south side of Chicago. They are in areas of—tend to be in areas of great need. And as you and I have discussed over the phone, we face the possibility of even the Cook County Hospital, a major public hospital, closing and I don't know what would happen to health care delivery in Cook County if that were to happen.

It is an area that concerns me. We are not paying hospitals their costs under medicare. And they either eventually shut down or shift the burden to others. I wonder if you have any comments on the medicare situation.

Secretary SULLIVAN. Yes, Senator Simon. First of all, thank you for your generous remarks.

The medicare situation and the closure of hospitals, is a complex issue, and as you are aware, hospitals are unique institutions, and it is hard to generalize from one to another.

We are concerned about doing everything we can in working with hospitals to help them preserve their viability. A number of urban hospitals are teaching hospitals and have a high percentage of poor patients. In addition to the medicare reimbursement, they receive funds from our disproportionate share account. Large teaching hospitals have enjoyed actually—compared to other hospitals—the largest operating margins of any group of hospitals. But some of the problems are related, indeed, to still a very high indigent care load that these hospitals have.

These problems are complex, and I know they are not going to be solved easily. But one of the approaches will be to have a more rational health care system. We will develop recommendations for the Congress to act on so that we will have a way to solve these problems.

Another issue is related to the very expensive nature of much of the equipment the hospitals have. We have, for example, more magnetic resonance imaging machines per capita in our country than any other nation in the world. There are probably more in the State of Illinois than in the entire country of Canada. These are very expensive operations, and—in making this technology available—they tend to drive the costs up because, unfortunately, many of these are not being fully utilized. Therefore, the per capita cost of these is great.

There are a number of things that impact on this. In the rural areas, one of the major problems involving hospitals is a very low occupancy rate. Rural hospitals' average occupancy rates are around 40 percent. At that occupancy rate, regardless of what occurs, you are not going to have a viable operation.

We have unique situations with each hospital, but we are committed to doing everything we can to work with communities to see that essential services are preserved. In many instances some hospitals will close and others will be transformed into other kinds of operations, but clearly we need to address this as we work with State and local officials.

Senator SIMON. If I can get in one more fast question before that light turns red here. Head Start we are about 20 percent, reaching 20 percent of those who need it. Maybe with the new figures we will go up to 21 or 22 percent, but a long way from where we ought to be. I haven't visited a Head Start program yet where there isn't a waiting list.

In Rock Island, IL, where I visited, Monday morning they have one group of children, Tuesday morning a second group of children, Wednesday morning a third and so forth, and they still have a waiting list. I asked the woman in charge, what would it mean in the lives of these young people if they could be here 5 days a week

instead of 1 day a week? And she smiled and said, "You just couldn't believe what a difference it would make in their lives."

Our failure to reach that other 80 percent who really need help concerns me a great deal. I know that time has expired there, but I would hope that as we review this budget—and I am talking to my colleagues, I guess, more than you, though I am lobbying you and, through you, OMB, I hope we make a greater priority out of Head Start than we have done.

Chairman SASSER. By Senate standards, that was a short question, Mr. Secretary. Do you wish to make a short answer?

Secretary SULLIVAN. Yes; Mr. Chairman, just a very quick one. We are committed to the Head Start Program, but I would want to point out to you, Senator Simon, that with this year's budget request for Head Start increased by $100 million. Over three budget cycles we will have increased the Head Start budget by 63 percent, or a total or $817 million. The President committed himself to working to provide a Head Start or a Head Start-like experience for all eligible 4-year-olds to at least give them 1 year.

With that frame of reference, we are reaching around 60 percent of the eligible children. I know that there are other perspectives that we should have this experience for 3-year-olds and 5-year-olds as well. The data show that a year's Head Start experience does pay off. The debate is whether additional years really result in additional gains. We are committed to the Head Start Program, and we have had the largest increase in the history of this program during our administration.

Chairman SASSER. Thank you very much, Senator Simon.

Senator Bond.

Senator BOND. Thank you very much, Mr. Chairman.

Dr. Sullivan, I want to join in the praise that the chairman and our other members have given you about the comprehensive approach that you have taken to some very difficult problems. Putting a cap on appropriations when the needs are great in Health and Human Services programs makes the job doubly difficult. I appreciate the thoughtfulness you put into your priorities.

Speaking of Head Start, I would bring to your attention, as I have also brought to the attention of Governor Alexander, (who I hope some day will be confirmed as Secretary of Education) that we have a Parents as Teachers program that has been very successful in Missouri that has health, mental health, and social welfare aspects that begin before Head Start. It is an education program, but it is one which has benefits that go throughout the spectrum and fills in some of the gaps in Head Start. It was developed from the Head Start program.

Having said that, I want to turn now to other priorities. In my statement, I commend you for recognizing the real tragedy of infant mortality. We had to deal with that in Missouri in 1981, the first part of this decade. We had an unacceptably high infant mortality rate. By focusing on this problem, we were able to bring our infant mortality rate down, but it is still too high.

Again, I cannot fault you and I commend you for focusing on infant mortality, but I do have very real problems with the approach that the administration is taking in Healthy Start by planning to redirect funds this fiscal year and in future years from the

Maternal and Child Health Block Grants and from community health centers.

I am very concerned about our infant mortality rate, but I think if the metaphor has ever fit, it fits here: Don't throw the baby out with the bath water. We have tremendous needs in health care delivery, and the community health centers are fighting not only infant mortality but other dire problems, such as substance abuse, a higher rate of cancer, heart disease, hypertension, stroke, HIV infection, and many other serious health problems that really need the attention of primary care services.

Community health centers in my State have already been notified by HHS that their funds are being cut off for Healthy Start. In St. Louis, I am told this will cause one of the health centers there to lose two obstetricians. I also understand that in addition to funds from community health centers, funds would also be cut from National Health Service Corps. That is another vital program for providing health care in rural and urban under-served areas.

Mr. Secretary, my own personal belief is that community health centers and the National Health Service Corps are very vital components to the overall solution to the broad problem of health care access and delivery that you address. I would like to know why you feel that these programs can be cut even though it is to benefit a very important priority program that you have remarked on yourself.

Secretary SULLIVAN. Senator Bond, thank you for your comments, and let me respond to your question.

We have a serious problem with an infant mortality rate that is almost obscene for a country with the resources that we have. We are devoting significant numbers of dollars. We know that progress is not as rapid as it should be. I am not sure that we know the best approach—the best way to lower the infant mortality rate. Our Healthy Start initiative will focus sufficient dollars in 10 demonstration areas—both urban and rural areas—over a 5-year period with the goal of reducing the infant mortality rate by 50 percent during that time. Evaluation of these projects will be built in to see what works and why. At the end of that time, or perhaps sooner, we will be able to disseminate this to other places.

What we are doing in the program is redirecting moneys. When this program is implemented, we will still have the funds within the community health centers and within the maternal and child health programs. Those dollars will still be there, but they will be concentrated rather than being spread out among 570-odd different centers where a little bit of money is not enough to make a significant difference. It will be concentrated in 10 areas giving us information that we need on what really works.

For an average community health center, with an average budget of $3.5 million to $4 million, it means about $40,000 that they would not be receiving. The center that would lose the two obstetricians, it sounds like a very large center with a larger operation. We are not taking moneys away from the program, but are designating moneys within those programs to go towards the infant mortality initiative and concentrate this in a few areas. If we have business as usual, 2 years or 5 years from now we will still be la-

menting this problem and still will not have the information. That is why we have designated this.

The problem that we confront as we try to mount an initiative is within the budget agreement, as Chairman Sasser noted. In order for us to have moneys to concentrate and get solutions to some problems, we have to establish priorities. The money has to come from somewhere.

For example, in our National Health Service Corps Recruitment Program, which I am very committed to, was funded at the level of $8 million when I started in this job 2 years ago, but I have urged and worked to get increased funding. I believe it is now up to $49 million and we are requesting an additional $5 million. We are going to continue to work toward increasing funding. Again in that program, we will be designating moneys for the infant mortality initiative and not diminishing the overall program but focusing the resources.

Chairman SASSER. Well, thank you very much, Senator Bond.

Senator Robb.

Senator ROBB. Thank you, Mr. Chairman.

Mr. Secretary, thank you for coming and being with us this morning. I would join others who have already suggested that your particular focus on the needs of children and youth, and particularly a means that we can employ to address head on the very serious problem of infant mortality, are certainly in terms of overall direction ones that I think most everybody here agrees with. Some of the questions that I was going to ask really were related to questions that Senator Bond has just asked with respect to the tradeoffs.

I think I heard you say, in effect, that the community health centers were not as effective as a concentrated effort on the 10 chosen cities and what have you. I am not sure that the community health centers would view that with a great deal of enthusiasm in terms of the kind of commitment to their future role or the importance in it. But I understand the tradeoffs, and, in fact, I think that in terms of bringing some sense of fiscal responsibility to the overall budget process, the caps do serve a very worthwhile goal.

Within that context, your commission that you had appointed, the National Leadership Commission on Health Care, the Pepper Commission, the NGA Commission and others, are all trying to come to grips with a systemic approach to some reforms in health care to address the overall problems that have been alluded to by our chairman and virtually everybody else on this panel and certainly anyone who has taken a look at it.

I wonder if you could just talk a little bit about how you see in the next 2 or 3 years, within the constraints imposed by the budget agreement and the obvious costs that have been either implicit or explicit in each of the reports, how basic priorities within your secretariat might change to adequately accomplish some of the recommendations that have come forward, most of which either explicitly state a very high price tag or imply significant resources that are not currently devoted to the system. I wonder if you could just talk a little bit about that with respect to the overall priorities within Health and Human Services and how that might be accomplished or what you might be prepared to do to fight within the

budget process and the administration for the kind of attention that this national health care crisis is going to demand in the near term.

Secretary SULLIVAN. Yes, Senator Robb. Thank you.

The President and the other members of the administration recognize that we have a serious problem with our health care system that must be addressed. Having said that, then the consensus breaks down as to what comes next. Let me emphasize some of the things that must be part of our plan here.

First, we have to give greater emphasis on health promotion and disease prevention. We are requesting increased dollars in our budget for preventive efforts. As I stated before, I don't believe that anything we can do in terms of efforts to control costs and provide access are going to occur if we are not successful in our prevention efforts.

Our health goals for the Nation for the year 2000 that we released last August in our document, "Healthy People 2000," is a national plan, not a Federal plan. This was a 3-year process in development from 1987 to 1990 involving health officers from the 50 States, private sector health groups like the American Cancer Society, Heart Association and others, foundations, et cetera. This as a comprehensive document for both Federal, State, and local governments and the private sector.

We described and outlined 298 health objectives for the Nation for the year 2000 that we feel very confident can be met, such as reducing our infant mortality level from its present level of not quite 10 infant deaths per 1,000 births down to 7. We know that can be done. Japan is below 7 as the number one nation in terms of the lowest infant mortality. It wasn't always that way. At the end of the World War II, Japan had an infant mortality rate substantially higher than the United States, but they made a concentrated effort and have been successful.

Another goal is to reduce the smoking incidence in our society from its present level of around 27 percent of our population down to below 15 percent. That as you know, is the number one preventable cause of death in our society is use of tobacco, where we lose some 400,000 citizens every year. I believe the CDC reported about 3 weeks ago 430,000 citizens a year. Prevention and all of the things that involves are one.

The other is managed care has to be increased. One of the problems with our system is that consumers really don't have the knowledge that they have in other areas when they are purchasing services. When you buy a car, consumers usually have a lot more information than when they are purchasing services. Part of it has to be managed care, to help inform consumers as well as to control costs.

Also there has to be greater efficiencies in our health care system and greater emphasis on primary care. We propose to continue and broaden support or increase support for residencies in the primary care areas—that is, family medicine, general internal medicine and pediatrics—while we restrain reimbursement for specialized residencies. We don't need more anesthesiologists or ophthalmologists, but we do need more pediatricians, more family physicians, and others.

Finally, we need to make our consumers more conscious of the health care costs of their decisions. We contribute as a society through our tax subsidy system $58 billion underwriting the cost of employer-sponsored health care. That means that the executive earning $200,000 a year has a fringe benefit package provided for him at the cost to all of the taxpayers—so does that taxpayer earning $20,000 a year. This is a very good health care system. Whereas, we have others who have no health care at all.

The question that I have raised—and this I discussed in the talk I gave at Stanford—should we be subsidizing health care to that degree, or should we put a cap on it, and utilize the savings from that towards providing health care for those who don't have it? We need to look at our system, but obviously these decisions cannot be made by me or by the President alone but has to be with the help of the Congress.

We have a myriad of different approaches that must be taken simultaneously, not piecemeal. If we do it piecemeal, we are going to create an imbalance that will cause us problems.

Senator ROBB. Mr. Secretary, my time has expired. Let me just say that the question about systemic approach in terms of looking at the whole Department in terms of some of the initiatives and deciding what is really important, clearly I agree with the emphasis you are placing on prevention and infant mortality—as you know, I have more than a passing family interest in that particular project—and some of the other things that you talk about that don't cost money. But it seems to me that your basic disagreement is you say it breaks down after you look at the threshold recommendations, frequently come down to how can we pay for them. It seems to me that a broader examination of all of the department and, indeed, the governmentwide priorities is the only way we are going to address that. I just would commend that to you as a way that we might be able to take a broader look at some of these questions in the future.

I thank you for your testimony, and, Mr. Chairman, I thank you.

Chairman SASSER. Thank you very much, Senator Robb.

Senator Grassley?

Senator GRASSLEY. Along with Senator Robb, I want to say that Senator Bond has expressed a lot of concern that I had about the administration's proposal in this area. Besides sharing their concern, as one Senator I am very reluctant to move forward in that direction, and I hope that Congress will study the issue very carefully before we would agree to what the administration suggested. So as long as they have asked on that question, I would like to go to another point. This is under medicare part B, where the administration is proposing to increase that premium for persons with annual income above $125,000, the budget estimates savings of $41 million in 1992, I am told, and $1.2 billion over a 5-year period of time.

You may not be able to give me these figures right now, but if you can't give them to me, submit them to me. But they are the basis for a more important concern I have. How many persons would be affected by the proposal? Do we know what their annual income is? Do we know how much more they would pay each year in part B premiums?

Secretary SULLIVAN. Yes, Senator Grassley, we estimate that we would be talking about roughly a half million individuals. These are single persons would have incomes of $125,000 or greater or $150,000 or more for a married couple.

As I mentioned to Senator Robb, the question of the pretax treatment of employer-sponsored health care is: Should the low-income worker earning $20,000 a year be supporting that part B medicare premium since we subsidize now that premium by 75 percent? The beneficiary only pays 25 percent of the cost. When this program was first enacted the guidelines were that it should be 50–50, but we got away from that and in recent years it has been 25 percent.

From the standpoint of having a system that is fair, those who have higher incomes can pay more—that this is appropriate. Even with our proposal, those individuals would still be subsidized by 25 percent from the general taxpayer. Even that would still be a great bargain for that individual.

Senator Grassley. OK. This is a concern I see, and this is why I want to know if you have thought this out. What is going to happen, as I see could happen, if someone would choose not to pay the higher premium. I suppose that would have the effect of opting out of that provision.

Maybe you don't see that as a problem, but it would seem to me like you are talking about people who have the capability of providing for their own health care, and they may just decide not to mess with the higher tax.

Secretary SULLIVAN. Senator Grassley, if they look carefully as they evaluate what they could get on the private market versus the medicare program, we don't think that there would be that many individuals who would opt out. With these proposed changes, this still would be a bargain for those individuals, because it still would be subsidized but it would mean that the more affluent would pay more. Senator Grassley, during the past 2 years, many affluent individuals indicate that they would be willing to pay more. They recognize we have a budget crisis. We need to get our national economy in order, and this would help. It would mean that we would have a fairer system.

Hopefully, we are correct in our belief that there would be relatively few who would opt out.

Senator GRASSLEY. Have you thought about this? I think there is going to be a new notch problem. I am not talking about the old social security notch problem. How can the administration address this problem that I call the notch problem that occurs at an income threshold where the higher premium begins to apply? In other words, persons just below this threshold then would end up having higher after-tax income than people just above this threshold unless it is phased in.

Secretary SULLIVAN. We have thought about that, Senator Grassley. Having this cutoff would be administratively much simpler to implement and to operate. If there were significant problems or issues from having this really as what we call a cliff as opposed to a notch, but if there were sufficient argument that there perhaps should be a slope, we would certainly be willing to work with you and Members of the Congress.

We are talking about individuals whose incomes are really sufficiently high. We would still have a program that would still have great value, in terms of money value for them. We wouldn't be creating a problem by implementing this with the cutoff as we propose.

Senator GRASSLEY. My time is up. Just one commentary. We thought we had a good rationale for the catastrophic health care program. It was a good buy. And let me tell you, sitting in Washington trying to explain that is one thing, but going out to grassroots America or grassroots Iowa and trying to sell it, it just doesn't sell. Thank you.

Thank you, Mr. Chairman.

Chairman SASSER. Thank you, Senator Grassley.

Senator Kasten?

Senator KASTEN. Mr. Chairman, thank you.

Mr. Secretary, I want to talk about the Low-Income Home Energy Assistance. I was greatly disappointed to see the President's budget request of Low-Income Home Energy Assistance representing roughly a 35 percent across-the-board cut or reduction in heating assistance for low-income families.

Now, in January, I wrote you a letter voicing my strong opposition to a proposal at that time to eliminate Wisconsin completely from the LIHEAP Program, the Low-Income Home Energy Assistance Program. We would have ended up taking 340,000 low-income people in my State, elderly, disabled, children, completely off the program. Now it is my understanding that Wisconsin will not be eliminated, but instead would receive a 35 percent reduction in the funding.

The average LIHEAP family in my State faces paying between 10 and up to 15 percent of their annual incomes just to keep heat in their homes during the winters. I don't have to talk to you about Wisconsin winters. But these families, the families under LIHEAP, often are making decisions basically whether they are going to be able to eat or whether they can afford to heat. I don't think any American should make that choice, in Wisconsin or in any other State in the country.

If Wisconsin's funding is cut by as much as 35 percent, how will these families in my State survive some of the cold and the harsh winters of Wisconsin and the upper Midwest?

Secretary SULLIVAN. Thank you, Senator Kasten. Let me say this about the LIHEAP Program. As you know, this program was enacted as a temporary program back during the oil embargo back in the late 1970's but has continued, as so many other temporary programs tend to do. One of the things that we are concerned about is whether or not this is an appropriate program, not only because of that principle, but also, as you know, this is money given to the States and can be transferred into other programs or dollars from other block grants can be transferred into it.

These dollars are never completely utilized. Last year $58 million was transferred out of this program by the States into other needs. There have not been dollars from other programs that have been transferred in.

Finally, this program depends upon the severity of the winters, and fortunately, this winter has been unusually mild. Even with

the reductions that we propose, we would still have $925 million in the program plus a contingency fund of an additional $100 million.

Faced with the need to live within the budget restrictions placed upon us by the budget agreement and other priorities, is the reason we made the recommendations. We still have a billion-dollar program for this purpose.

Senator KASTEN. If you say it was a temporary program and it ought to be eliminated, then I guess you are arguing that it be eliminated completely. Is that what you are saying?

Secretary SULLIVAN. I think the purpose of this was the oil embargo which has long since disappeared, but the program hasn't disappeared along with the oil embargo.

Senator KASTEN. I hope you are right. Obviously, we have come to a successful, at least as of now what looks to be a successful result in the Persian Gulf. But we could have been on the edge right this moment of huge increases in costs for fuel, particularly in the Northeast and the Midwest. It looks now as if possibly as a result of the Operation Desert Storm that those fuel costs, those oil costs, those petroleum costs might stabilize somewhat. But they have gone up and they did go up because of the Iraqi invasion of Kuwait. We are obviously going to be arguing back and forth on a number of issues, including this one, and I simply wanted to express to you my concern about, in my view, the short-sightedness, particularly from the point of view of Wisconsin, of this particular cutback. I think it is the wrong thing to do.

Let me ask another quick question. I see I have only got about a minute to go. The proposal of redirecting the roughly $58 million for infant mortality, there was a proposal made to combat infant mortality to only the top ten cities with the highest rates of infant deaths. We turn out in Milwaukee, WI, to be number 14 with the highest number of deaths due to infant mortality.

If you redirect money from cities, my guess is cities like Milwaukee that are close, if we have no money at all, we will pop into the top 10 probably in a year or two because we are trying to work with infant mortality.

Rather than weakening the community health programs across the Nation, I hope we are going to concentrate on developing means for improving the delivery of services to all at-risk recipients of community health care. What is your view? What are your thoughts on that matter? And do you understand what I mean? If we get no help at all, we are going to be in the top 10 and maybe qualify, but you are just going to have a continuing rotating group of people, all of whom will be in the top 10 because they won't have help.

Secretary SULLIVAN. Yes, Senator Kasten. Before answering that, let me simply add one thing about the low-income energy program which I should have added before. We have five other programs that provide funds that can be used for energy costs, such as our AFDC Program, our Emergency Assistance Program, food stamps, and also SSI, Supplemental Security Income Program, as well as HUD energy assistance programs. As we reduce the LIHEAP Program, there are other resources. Those other resources are there for low-income citizens.

On the issue of the 10 cities, these will be cities that have high infant mortality, but they will not necessarily be simply the top 10 in terms of infant mortality. The locality—whether it is a city, a county or other discrete geographic area, because we will have rural areas also—will actually have to submit a plan for how they would work to bring the infant mortality level down. What we want to get out of this is not only saving babies' lives by concentrating an effort, but also getting information that we and others can use in the future by finding out what works so that we can then later spend dollars more wisely, both at the Federal level and the local level.

I would not say that Milwaukee is automatically out of the running. That is not the case. We would evaluate the plan. That plan has to include a mechanism for the unit to evaluate the results of their efforts. With the people in Milwaukee—I happen to know Dean Cooper there at the medical school, and the local people there will have a lot of ideas for developing an imaginative proposal that will be helpful to us and the Nation. Without this proposal we would continue to distribute smaller amounts of money. We are talking about approximately $40,000. We are not decreasing moneys that the community health centers are getting but, rather, taking the planned increase and designating that and putting that into the infant mortality initiative.

Quite frankly, there would be a number of community health centers that would contribute to that, they all are going to benefit in the long run by the data that we get from the concentrated effort with the ten demonstrations.

Senator KASTEN. Thank you, Mr. Chairman.

Chairman SASSER. Thank you, Senator Kasten.

I know that your time is limited, Mr. Secretary. I want to ask you one quick question if I may.

The Social Security Administration, as you know, has requested release of $125 million in contingency funds for administrative expenses for 1991, and these funds are urgently needed to maintain social security service.

Now, as I understand it, there is a serious backlog in the review and processing of disability claims and appeals, and I know you are concerned about this situation because you, I think, sent a letter about it to the OMB Director, Dick Darman, some time ago.

Last week, 25 Senators, including myself, also wrote Mr. Darman urging him to release this $125 million in contingency funds because of the backup in disability claims.

I wanted to ask you today before you left if you would contact Mr. Darman and urge him to release these contingency funds now.

Secretary Sullivan. Yes, Mr. Chairman. We have ongoing discussions with OMB about the release of those funds. I think it is fair to say that our discussions are proceeding quite positively there. We are working on that, and we will continue pushing.

Chairman SASSER. Delighted to hear that.

Do you have any further questions, Senator Domenici?

Senator DOMENICI. I am going to submit a number of them rather than ask them, and I would ask for your answers.

Let me just say, Mr. Secretary, I think that I sense all of a sudden a very significant support for dramatic expansion, even if it

is 10 years, dramatic annual expansion of the community health center program as the primary health care provider for our people who are unable to afford other kinds of medical care. And, frankly, while I am a staunch advocate of that approach, I would like very much for you to tell us in the record, when you get back to your office at your leisure, what are some of the negative aspects of that as a major primary health supplier that you might see? Because, frankly, there is a 10-year approach being advocated around here of a $300 million a year add-on to a $480 million program, which would get you up around $3 billion 10 years hence. And the numbers are rather dramatic.

If you continue to expand the population that gets coverage in proportion to the dollar spent, you will have a huge impact on the Americans who are not covered with other care under that system. And maybe you see something that is not so good about it, maybe you want to put up some caveats, but clearly I see the momentum. And you ought to know that because many people think it is a much simpler way than all the complicated approaches that people have been talking about.

Thank you very much.

Secretary SULLIVAN. Thank you, Senator Domenici. I will be happy to get a response back to you in that regard.

[The following was subsequently supplied for the record by Secretary Sullivan:]

COMMUNITY HEALTH CENTERS

We believe that community health centers play a vital role in providing primary health care services to the underserved. In fiscal year 1992, while our budget request seeks a direct appropriation the same level as fiscal year 1991, we expect that total resources available to community health centers will continue to expand. The recent expansion in medicaid coverage for pregnant women and children will have an impact on increasing reimbursements available to these facilities. Overall, we expect the financial resources available to community and migrant health centers to increase by $34 million in FY 1992. This does not include a portion of the $139 million for the Healthy Start Infant Mortality Initiative, which CHCs should receive in those targeted communities.

Community health centers already play a significant role in providing services to almost 6 million people. As you know, two blue ribbon panels are currently reviewing the United States health care system, particularly as it applies to underserved Americans. We expect this report to provide useful insight into how best to serve these populations.

Chairman SASSER. Well, Dr. Sullivan, thank you very much for your testimony and appearance here this morning. We very much appreciate your views, and they have been a great help to the committee, I might say.

Thank you very much, Mr. Secretary.

Secretary SULLIVAN. Thank you, Mr. Chairman.

Chairman SASSER. Next this morning we will have a panel which will consist of three distinguished people. I am particularly pleased to be able to introduce a fellow Tennessean before the Senate Budget Committee this morning, Mr. Robert B. Maxwell. Mr. Maxwell is a friend of some years. He hails from Maryville, TN. He is president of the American Association of Retired Persons, the AARP. He also serves on the Association's Executive Committee and National Legislative Council. Bob Maxwell, we are delighted to

have you before us this morning and are pleased that you could accept our invitation to appear.

He will be joined by Dr. Jack Meyer. Dr. Meyer is the founder and president of New Directions for Policy. This organization is one of Washington's most respected study groups for matters of health care policy, particularly health care for the underprivileged, as well as for long-term care matters.

We are also pleased to have Dr. Robert J. Blendon with us today. Dr. Blendon currently serves as the chairman of the Department of Health Policy and Management at the Harvard School of Public Health. In the public sector, Dr. Blendon served in the Nixon administration at the Department of HEW where he was a special assistant for matters of health care policy.

Gentlemen, we are delighted to have all of you here this morning. I am afraid that the committee went over in our questioning of Dr. Sullivan. So I would urge you as much as you can to summarize your testimony. It will be included in the record as if read, and we will begin with you, Bob Maxwell, and go from left to right as I look at the table.

Why don't you proceed?

Senator DOMENICI. Mr. Chairman, might I just take 1 minute? Mr. Chairman, I have to say to Mr. Maxwell that his organization and I in a sense have been good friends for a long time. I knew your predecessor, and I welcome you. You do a lot of good work, and I thank you very much for all you do.

To the other two witnesses, I have seen your testimony, and you have wonderful ideas that more people ought to be exposed to. But I am fearful that we are not going to have that today other than we will work at with our own people. I thank you very much for your thoughts and for your testimony which I think is very good.

Thank you, Mr. Chairman.

Chairman Sasser. Thank you, Senator Domenici.

Mr. Maxwell.

STATEMENT OF ROBERT B. MAXWELL, PRESIDENT, AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. MAXWELL. Thank you. I certainly appreciate the opportunity to represent the American Association of Retired Persons today. Mr. Chairman, I will chop my remarks to help meet the time.

Now that the war in the Persian Gulf is over and we are hopeful of our troops' speedy return, we have to turn our attention to a growing crisis that we face here at home. Our health care system is seriously flawed and is failing to provide affordable, quality health and long-term care for all of our citizens. The culprit is uncontrollable health care costs. Last year alone we spent over $600 billion in health care, more than 10 percent over what was spent the previous year, and yet 34 million Americans still have no health insurance protection, and at least another 20 million more have inadequate coverage.

Despite the urgent need to contain runaway health care costs and provide Americans with access to care, the administration's budget proposal offers little in the way of a solution. In fact, the

1992 budget fails to acknowledge that we have a health care crisis which requires a comprehensive not a piecemeal solution.

Mr. Chairman, health care costs continue to absorb more and more of our Federal dollars, our individual dollars, and our American business dollars. Growth in spending for our Nation's major health care programs, medicare and medicaid, and veterans and Federal employees will average nearly 12 percent between fiscal year 1991 and 1992. Tax expenditures for employer contributions for health care benefits will increase by 12.4 percent, and the trend is just simply unaffordable in financial and human terms.

We think this committee's broad responsibility to establish national spending and taxation policies time has come. Your concern over the economic impact of Federal budget decisions place it in an ideal position to develop a comprehensive health care reform plan—a plan which insures that everyone has coverage, a plan which establishes a fair method of paying providers, and a plan which encourages efficient service delivery. And only when we take these steps will all Americans have access to the quality, affordable health and long-term that they need.

The most important step in building public support is a solid commitment by the President to make health care reform a national priority, and the President's budget proposal should start this process. Unfortunately, the administration's fiscal year 1992 proposal offers little promise of a brighter future for the millions of Americans who lack access to basic health care services. As in past years, the administration's budget proposal simply turns to medicare to achieve greater deficit reduction without recognizing the enormous contribution that medicare has made and continues to make.

The only answer to these problems lies in a comprehensive reform of our Nation's health care system. Only through reforming our current system can we guarantee Americans of all ages access to quality health and long-term care and achieve cost containment.

We believe that health care reform must be a national priority. We recognize that the broad public consensus about the problem and the need to share the risk of health care costs are key ingredients to achieving this goal. In discussing this issue with AARP members nationwide, we found that continued public education will be essential for building a consensus on this important issue.

AARP will continue to increase its public education efforts to develop a better understanding of this crisis and to identify realistic solutions. We urge the Congress to lay the groundwork by convening public hearings around the country that focus public attention on the tough choices that must be part of the solution. We must build a consensus on the answers to several important questions. They are these:

What elements of a health care system are most important to Americans? Second, are we as health care consumers willing to adjust our patterns of use and coverage, and are we willing to make the tradeoffs that will be necessary to ensure access for all Americans? Third, are we willing to pay the cost of these benefits not only in the aggregate but as individual taxpayers?

Ultimately, this last question is the focal point in the debate over health care reform. AARP believes that any financing of health

care reform should be broad-based, equitable, and affordable to all. Programs which are based on these social insurance principles, like social security and medicare, enjoy considerable public support. In our view, comprehensive health care reform will only be achieved if it commands broad support which can best be attained through a social insurance structure.

We have an obligation to raise these questions with the American people. Comprehensive reform of our health care system will only be possible when the American people understand the need for protection and recognize the inherent danger involved in continuing a piecemeal approach to what is a comprehensive problem.

We are confident that with your help we can answer these questions and form clear and strong messages to our elected officials. Clearly, the 1992 presidential election will offer an important opportunity to engage in a national debate that can help solidify America's commitment to health care reform.

Mr. Chairman, I appreciate the opportunity to address your committee today. I would ask that you do consider our written submission. And we stand ready to work with you and your colleagues in achieving the goal of comprehensive and affordable health care for all Americans.

Thank you, sir.

Chairman SASSER. Thank you very much, Mr. Maxwell.

[The prepared statement of Mr. Maxwell follows:]

Bringing lifetimes of experience and leadership to serve all generations.

STATEMENT

of the

AMERICAN ASSOCIATION OF RETIRED PERSONS

on

FISCAL YEAR 1992 HEALTH CARE BUDGET

Presented By
Robert B. Maxwell
President of AARP

before the

Senate Budget Committee

WASHINGTON, DC

MARCH 5, 1991

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Good morning. I am Bob Maxwell from Maryville, Tennessee, and I am the President of the American Association of Retired Persons (AARP). I am pleased to have this opportunity to discuss the President's fiscal year 1992 (FY92) budget proposal and its affect on the growing health care needs of Americans.

We are all greatly relieved that the war in the Persian Gulf has ended and look forward to the safe and speedy return of the courageous men and women that served our country in the Gulf. With this crisis behind us, perhaps it is time to turn our attention to a growing crisis here at home -- the failure of our health care system to provide affordable access to quality health and long-term care for all Americans.

Approximately 34 million Americans under the age of 65 and 300,000 over the age of 65 have no health insurance. At least another 20 million have inadequate protection. Access to health care coverage is decreasing primarily due to the phenomenal increase in health care costs. Health care expenditures in the United States totaled $604 billion in 1989, an 11.1 percent increase from the previous year (and they continue to consume an ever-increasing share of our GNP). As a nation, we spend more on

health care, no matter how you measure it, than any other nation in the world.

Given the broad scope of this Committee to establish national spending and taxation policies and your concern over the economic impact of federal budget decisions, we urge you to pay particular attention to the escalating costs of health care. To begin, consider the increase in federal outlays for health care between FY91 and FY92, as estimated in the Administration's FY92 budget proposal:

- The Department of Veterans Affairs spending increases 7.0 percent;
- Total Medicare current spending increases 11.8 percent, with Part A (Hospital Insurance) increasing 10.6 percent, and Part B (Physician Services) increasing 13.6 percent;
- Federal Employees Health Benefits spending increases 12.3 percent; and
- Medicaid current spending increases 16.2 percent.

These substantial increases in federal outlays for health care, which represent some of the most significant increases in the Administration's FY92 budget proposal, are symptomatic of

escalating health care costs across the federal budget and the national economy. Even the business community's increased spending on health care is quite evident in the federal budget. Tax expenditures for employer contributions for health care benefits will increase by 12.4 percent between FY91 and FY92, according to the Congressional Budget office, and will cost an estimated $210 billion over FY91-95.

We are all adversely affected by the uninhibited growth in health care costs. Health care spending has become a growing concern for businesses, governors, and a broad range of American families, as well as for the federal government and this Committee.

Despite the urgent need to contain runaway health care costs, the Administration's FY92 budget proposal offers little beyond the same proposals seen so often over the last decade. More than a year ago, the President, in his State of the Union Address, cited the problem of health care cost. Little if anything has followed. In short, the Administration fails to acknowledge that our health care crisis is a pervasive problem that affects all segments of our society, not just Medicare providers and beneficiaries, and by its nature requires a comprehensive -- not piecemeal -- solution.

After many frustrated attempts at controlling health care costs, AARP believes we have learned a valuable lesson: to achieve real cost control, we need to develop a comprehensive health care reform plan that 1) ensures every one has coverage, 2) establishes a fair and uniform method of provider reimbursement to avoid cost-shifting, and 3) encourages efficient service delivery. Only when we take these steps can we have confidence that all Americans will have access to the quality, affordable health and long-term care that they need, and we can begin to assure value for our health care expenditures.

To constructively move toward comprehensive reform of our health care system we must build a consensus on the need for reform. The place to start this process is through developing a better public understanding of the nature of the problem -- the cost of health care -- and its pervasive effects on all Americans. Until the increase in health insurance premiums burdening employers and workers, the increase in premiums and deductibles for Medicare beneficiaries, the increase in health care costs paid by the federal government, and the cost of care for the uninsured or those needing long-term care are seen as part of a common problem, reform will come slowly -- if at all.

In an effort to build a better public understanding about the nature of our health care crisis and move us closer to reform, AARP has adopted principles of health care reform. These

principles (included at the end of our written testimony) establish a framework for reform of our acute and long-term health care systems. AARP believes that to achieve meaningful health care reform, Congress must establish a blueprint -- the broad architecture -- of a reformed system that reflects these principles and begins building public consensus toward comprehensive reform.

Most important in building broad public support, however, is a solid commitment by the President to make health care reform a national priority. The President's budget proposal, as a statement of national goals and priorities, should start the process. As the President said in his budget message, "I look forward to working with the Congress in developing a budget that lays the groundwork for a brighter future..."

Unfortunately, the President's budget proposal offers no vision of comprehensive health care reform and provides little promise of a brighter future for the millions of Americans who lack access to basic health care services. We hope that this Committee's debate over Medicare and Medicaid budget proposals will be done in the broader context of discussing the more comprehensive problems of our current health care system.

THE ADMINISTRATION'S FY92 MEDICARE BUDGET PROPOSALS

As in past years, the Administration's FY92 budget proposal turns to the Medicare program to achieve greater deficit reduction. But before addressing the President's specific Medicare proposals, it is important to recognize the enormous contribution to deficit reduction that the Medicare program has made, and continues to make.

From 1984 through 1990, substantial cuts in the Medicare Part A (Hospital Insurance) program have saved nearly $82 billion in Federal spending (see Chart I). In addition, under the Omnibus Budget Reconciliation Act of 1990 (OBRA '90) enacted last year, Medicare Parts A and B will contribute $43 billion more toward deficit reduction over the next five years (see Chart II) on top of the savings generated from pre-FY91 Part A reductions.

Now, for the sake of further deficit reduction, the Administration's FY92 budget proposes to cut the Medicare program by an additional $2.9 billion in FY92, and $25.2 billion over five years (FY92-96). Further, if the income generated by the President's proposal to require participation of all state and local workers in the Medicare program (which adds $1.1 billion to the Hospital Insurance Trust Fund in FY92 and $7.3 billion over five years) is included, Medicare's total contribution to deficit reduction under the Administration's FY92 budget proposal is

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$4 billion in FY92 and $12.5 billion over five years -- all of which is additional deficit reduction on top of that required by OBRA '90 (see Chart III).

> If the Medicare program is to adequately serve the growing needs of beneficiaries, it needs a respite from this continuous barrage of deficit reduction-driven assaults.

AARP believes that it is time for the Administration and the Congress to assess the cumulative and interactive effects of current and past Medicare cost-cutting measures on the program's ability to provide quality health care to Medicare beneficiaries.

AARP has, in the past, supported reductions in Medicare as part of responsible cost containment efforts. The Association recognizes that there may still be areas in which good Medicare program management would justify changes. But now is not the time for additional cuts solely for the purpose of deficit reduction or to offset tax cuts.

Greater Medicare Beneficiary Cost-Sharing

The Administration's FY92 budget proposal increases Medicare beneficiary out-of-pocket costs by $541 million on top of the $690 million additional beneficiary cost-sharing required in FY92 under OBRA '90. Specifically, the budget includes $91 million in

new revenue from tripling (from $29.90 per month to $89.70 per month) the cost of the Medicare Part B premium for beneficiaries with annual incomes over $125,000 ($150,000 for couples). Under this proposal, these beneficiaries would have $89.70 deducted from their monthly Social Security check, beginning October 1, 1991, to cover the higher Part B premium.

This proposal does not address the need for comprehensive reform of our health care system generally and would do nothing to curb the uninhibited growth of the Medicare program.

In addition, the Administration's proposal is similar to proposals opposed by AARP and rejected in last year's budget summit for good reason: it offers no change to Medicare that justifies asking beneficiaries to pay more, particularly when beneficiaries have little control over escalating health care costs. In fact, the proposal substantially increases administrative costs which, in the first year, account for more than half of the revenue generated by the premium increase (an estimated $50 million of the $91 million in new revenues). The Administration's proposal, however, does not indicate what program(s) will be reduced by $50 million to pay for these additional administrative costs which are subject to the domestic discretionary spending limit.

Ultimately, adoption of such a proposal would lead to further income-relating of the Medicare premium by lowering the income thresholds, or to means-testing benefits -- steps which would inevitably erode public support for Medicare.

The budget proposal also includes $450 million in new beneficiary cost-sharing in FY92 by reinstituting a 20-percent coinsurance for clinical laboratory services. The Congress specifically rejected this proposal last year on the grounds that beneficiaries were already shouldering enough of the burden of deficit reduction due to Part B premium and deductible increases. Under OBRA '90, beneficiary cost-sharing grows substantially through FY95 (see Chart IV), leaving little justification for any additional cost-sharing proposals.

In addition, reapplying a 20-percent coinsurance for lab services would create substantial administrative costs which, under the new budget rules established in OBRA '90, would have to be "paid for" under the domestic discretionary spending limits. To pay for these administrative expenses, reductions in other programs within that budget category might be necessary to avoid a sequester.

Additional Medicare Provider Reimbursement Constraints

As in the past, the President's new budget proposes significant reductions in Medicare payments to hospitals and physicians totalling $2.4 billion in FY92. AARP is not opposed to changes in provider reimbursement which improve the efficiency of Medicare, but reductions of this magnitude must be justified, particularly in the wake of significant provider cuts over the last eight years and those already planned for FY91-95.

The most significant portion of the proposed provider cuts is from the Part A program, and the largest single reduction is in Medicare payments for medical education. The Administration's budget would cut payments for direct and indirect medical education by $1.19 billion in FY92, significantly reducing payments currently made to teaching hospitals across the country.

While the vast majority of hospitals affected by these reductions are in urban areas, these cuts will also impact teaching hospitals in rural areas. AARP is particularly concerned that, in those cases where hospitals are forced to curtail their training programs as a result of these cuts, the number of health care providers available to treat many Medicare beneficiaries, in both urban and rural communities, may be severely limited.

The President's budget also proposes $170 million in reductions in physician reimbursements under the Part B program. The bulk of these cuts come from reducing Medicare payments to nurse and physician anesthesia teams, and from establishing a single fee for assistants at surgery. While a payment reduction for these services may be justified, it should not be made solely for the purpose of deficit reduction. Any changes in the level of payment for physicians should occur within the context of physician payment reform.

Implementation of the new Medicare fee schedule will begin early next year, and the final refinements to the payment schedule are already underway. Further reductions in physician's fees that do not reflect the overall strategy of physician payment reform could have a detrimental affect on the success of the program and also result in cost-shifting to Medicare beneficiaries. Beneficiaries lost some critical protection against out-of-pocket expenses last year when Congress increased the balance billing limits which restrict the amount a physician can charge a beneficiary over Medicare's approved amount. AARP cautions Congress to carefully consider any Part B provider reductions which may jeopardize physician payment reform.

There is one particular proposal in the budget which AARP believes warrants serious consideration by the Congress. To help reduce cost-shifting from private, employer-provided health

insurance plans to Medicare and Medicaid, the Administration's budget proposes a national clearinghouse on third-party liability. The clearinghouse would collect employment-based health coverage information and bill the insurance company directly if a claim is made for a Medicare or Medicaid beneficiary with private coverage.

THE ADMINISTRATION'S FY92 MEDICAID BUDGET PROPOSALS

The Medicaid program is intended to serve as the health care "safety net" for our nation's impoverished citizens. As the major source of funding health care for poor and low-income persons, it is -- for better or worse -- a symbol of America's commitment to provide for its most vulnerable people.

The President's FY92 budget proposes a total of $25 million in new federal Medicaid spending, primarily to allow states to expand medically-needy eligibility to pregnant women and children. AARP supports the goals embodied in these improvements but, with regard to the initiative on infant mortality, questions which programs would lose money through the redirection of these funds.

The Association continues to support expansions in the Medicaid program -- such as those made in OBRA '90 for pregnant women and

children, qualified Medicare beneficiaries and the frail elderly -- as responsible short-term means of increasing access to needed health care services for some poor and near-poor Americans.

Although AARP is pleased that the President's budget proposal includes additional short-term improvements in Medicaid, these proposals still do not address the fundamental inadequacies of the Medicaid program which limit its ability to provide a uniform safety net for low-income Americans. Among the most significant of the systemic problems with Medicaid is the inadequate provider reimbursement, the unreasonably restrictive income and asset requirements for eligibility, and the administrative barriers in the application process.

AARP recognizes that many states face budget crises and, as a result, are attempting to postpone implementation of recent Medicaid improvements. Rising program costs or declining revenues must not be used as an excuse for failing to provide needed health care services.

Clearly, the dilemma state and federal governments face in providing health care for our poorest citizens dramatizes the growing need for comprehensive health care reform. Medicaid alone will never serve the full range of health care services needed by low-income Americans. Ultimately, access to basic

health and long-term care services demands a comprehensive solution.

CONCLUSION

The minimal Medicaid improvements and piecemeal Medicare proposals the President offers in his FY92 budget do little to enhance the ability of these programs to provide quality health care to their beneficiaries. Moreover, the various proposals offered by the Administration do not even begin to move us closer to assuring affordable access to health care services for the millions of Americans who lack health insurance coverage. Indeed, if the President's new budget does anything, it will likely exacerbate cost-shifting and add to the complexity of our already fragmented health care system.

The only answer to these problems lies in a comprehensive reform of our nation's health care system. Only through reforming our current system can we guarantee Americans of all ages access to quality health and long-term care, and achieve cost containment.

AARP believes that health care reform must be a national priority. We recognize that broad public consensus about the problem and the need to share the risk of health care costs are key ingredients in achieving this goal. In discussing this issue with AARP members nationwide, we have found that continued public

education will be essential for building a consensus on this important issue.

AARP is increasing its public education efforts to develop a better understanding of this crisis and find realistic solutions, but we cannot do this alone. Unfortunately, to date, we have not been able to count on the President to make health care reform a national priority. Therefore, we call upon the Congress to lay the groundwork by convening public hearings around the country to explore the scope and complexity of the problem and focus public attention on the tough choices that must be part of the solution. We must build a consensus on the answers to several important questions:

- What elements of a health care system are most important to Americans?

- Are we, as health care consumers, willing to adjust our patterns of use and coverage, and are we willing to make the trade-offs that will be necessary to ensure access for all Americans?

- Are we willing to pay the cost of these benefits, not only in the aggregate, but as individual taxpayers?

Ultimately, this last question is the focal point in the debate over health care reform. AARP believes that any financing of health care reform should be broad-based, equitable, and affordable to all. Programs which are based on these social insurance principles, like Social Security and Medicare, enjoy considerable public support. In our view, comprehensive health care reform will only be achieved if it commands broad support which can best be attained through a social insurance structure.

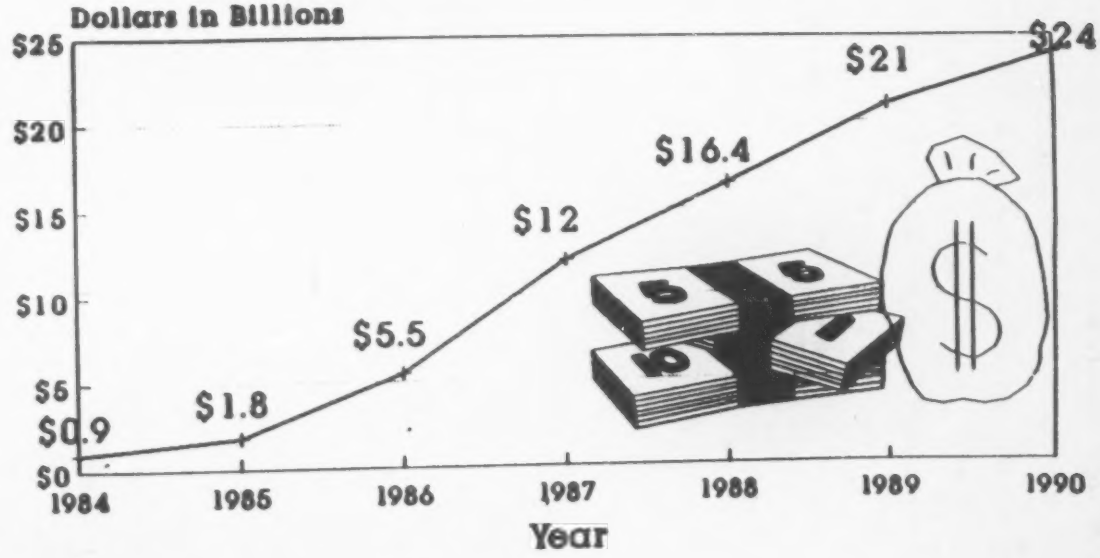
We have an obligation to raise these questions with the American people. Comprehensive reform of our health care system will only be possible when the American people understand the need for protection and recognize the inherent danger involved in continuing a piecemeal approach to a comprehensive problem. We are confident that, with your help, we can answer these questions and form clear and strong messages to our elected officials. Clearly, the 1992 Presidential election will offer an important opportunity to engage in a national debate that can help solidify America's commitment to health care reform.

Mr. Chairman, I appreciate the opportunity to address your Committee today. AARP stands ready to work with you and your colleagues in achieving the goal of comprehensive and affordable health care for all Americans.

DD-4-MAX2-3/1

CHART 1

Medicare Part A
Contribution to Deficit Reduction
1984-90 = $81.6 Billion

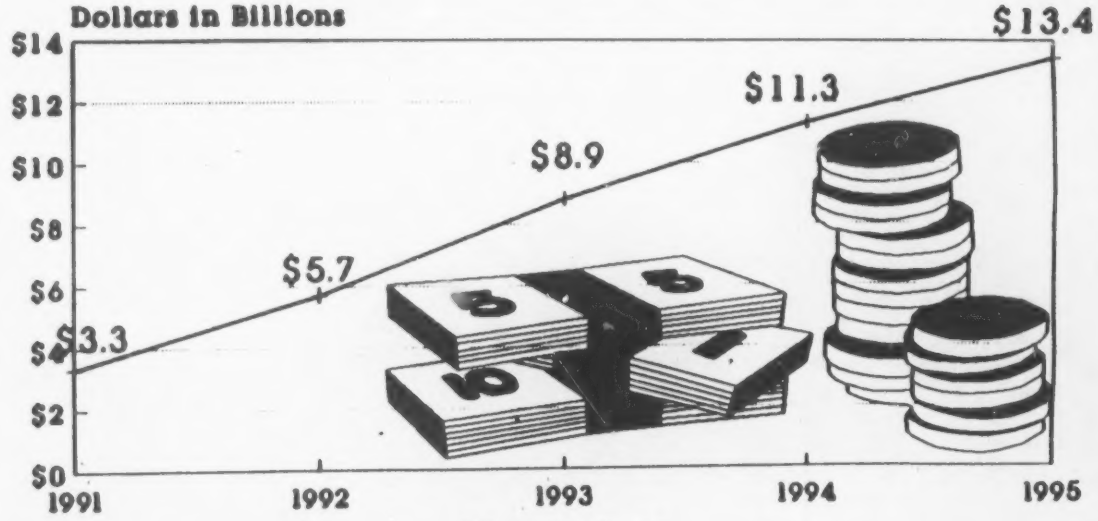


Source: Catholic Health Assoc., 1990
Spending Below Pre-TEFRA/PPS Baseline
DD-2-MEDDEF-2/2

CHART 2

Medicare's Continuing Contribution to Deficit Reduction

Fiscal Years 1991-95 = $42.6 Billion

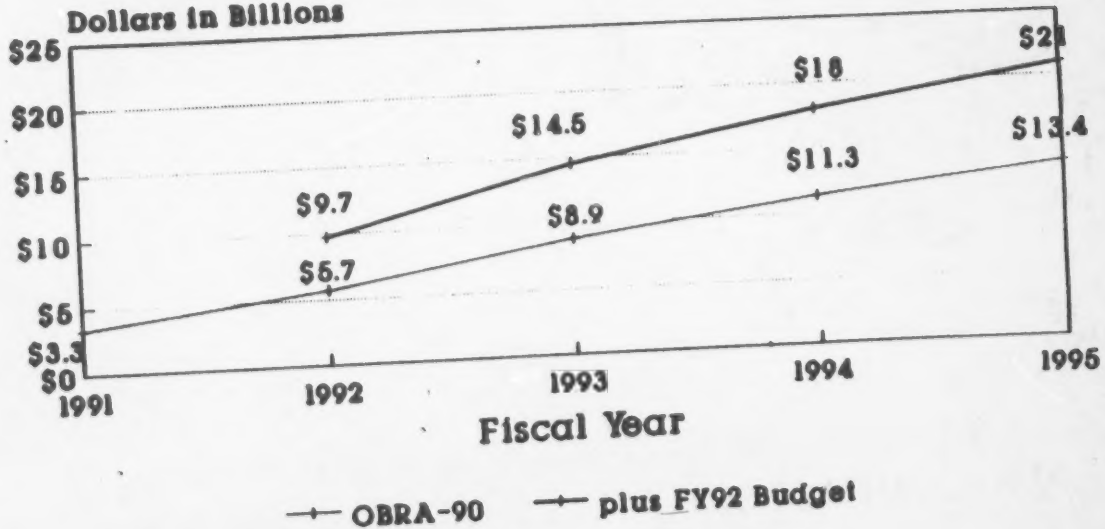


Source: CBO OBRA-90 Estimates, Oct 1990
Medicare Parts A and B: Ben. + Providers
DD-2-MEDDEF2-2/2

CHART 3

Medicare's Continuing Contribution to Deficit Reduction FY1991-95

$42.6 Bill OBRA-90/$63 Bill Pres. Budget



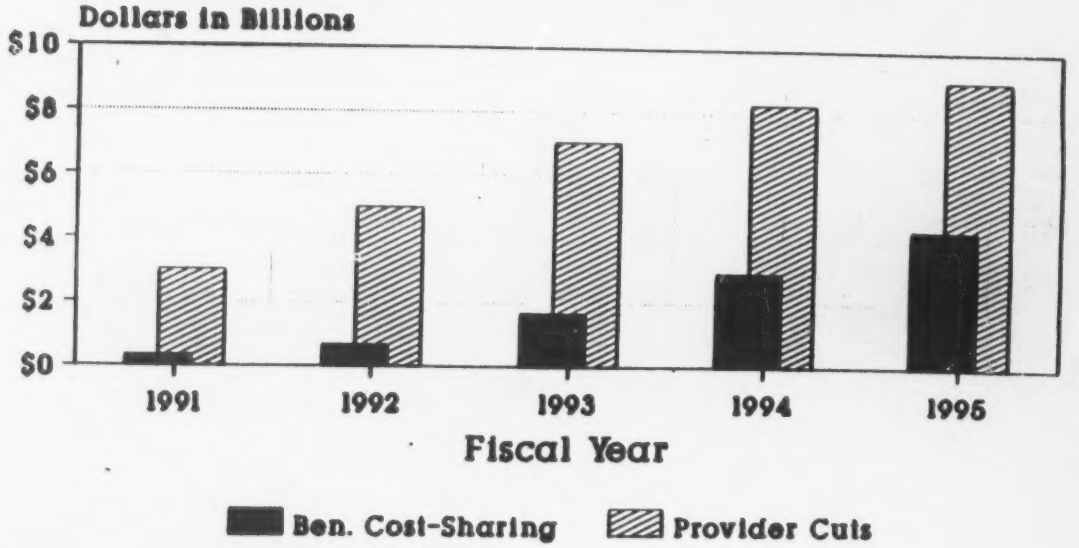
Source: CBO OBRA-90 Est; Pres FY92 Bud. Medicare Parts A and B: Ben. + Providers Pres. FY92 Bud Est Incl. SI & Lci cov.

DD-2-MEDDEF3-2/2

CHART 4

Medicare Beneficiaries' Growing Contribution to Deficit Reduction

Beneficiary Costs vs. Provider Cuts



Source: CBO OBRA-90 Estimates, Oct 1990
Ben. Cost-Sharing = Part B Prem + Deduct
DD-2-BEN-2/2

AARP

Health Care Reform Principles

for

Acute and Long Term Care

Preamble

AARP believes that the United States has the resources to ensure access to acute and long-term care for all individuals, and to control health care costs without compromising quality of care. Efforts to reform the health care system must recognize the need to provide acute and long-term care over the course of an individual's lifetime. AARP recognizes that advancement may be achieved in incremental steps, but we believe that each of these steps should move the country closer to the goal of comprhensive, affordable acute and long-term care for people of all ages.

The following sets of principles are designed to guide the Association in its efforts to reform our current acute and long-term care systems. The principles do not address every specific issue relating to health care reform, but they do establish criteria for evaluating and comparing reform proposals. They also serve to guide the Association in its participation in the public debate over health care reform.

Acute Care Principles:

1. All individuals have a right to receive health care services when they need them.

   The public, through the federal and state governments, has the ultimate responsibility to develop a system that ensures reasonable and equitable access to needed health care services for all individuals.

2. All individuals have a right to reasonable access to health care coverage that provides adequate financial protection against health care costs.

   The public, through the federal and state governments, has the ultimate responsibility to develop a system that ensures universal access to health care coverage for all individuals, including individuals with disabilities or health problems. The health care system should be designed to ensure that all individuals are covered by a public or private health coverage plan. The government should establish a minimum benefit package to which all individuals are entitled.

3. All individuals have a right to high quality health care.

   The health care system should collect, analyze, and disseminate information about provider performance, health care outcomes, and the appropriateness and effectiveness of health care services. Quality assurance programs, such as peer review and professional licensure, should be strengthened and coordinated.

4. All individuals should have a reasonable choice of health care providers.

   Cost containment efforts should not unreasonably limit choice of providers. Consumers should be provided with sufficient information about health care providers and treatment options to make informed health care decisions.

5. Financing of the health care system should be equitable, broadly based, and affordable to all individuals.

   Government, employers, and individuals share the responsibility to participate in health care financing. Our present method of financing health care should be replaced by fairer, more progressive financing approaches. Burdensome cost-sharing requirements (e.g., burdensome deductibles and coinsurance) should be avoided because they disproportionately affect the sick and the poor. The public, through the federal and state governments, should subsidize the cost of health care coverage for individuals with lower incomes and should fully finance health care coverage for the poor. Any financing method should preserve the dignity of the individual, regardless of his or her income level.

6. Methods of provider reimbursement should promote cost containment, encourage efficient service delivery, and compensate providers fairly.

   Health care providers should receive basically the same reimbursement for the same services within a given area, regardless of the payment source. The government should play a major role in establishing more uniform reimbursement practices and rates for health care providers. Health care providers share in the responsibility to be fiscally prudent.

7. **Health care spending should be more rational and should be managed through more effective planning, budgeting, and resource coordination.**

   The distribution and allocation of health care resources (e.g., capital, technology, and personnel) should encourage innovation, efficiency, and cost effectiveness, and should promote reasonable access to services. Federal and state governments should play a major role in planning and coordinating the allocation of health care resources.

8. **Health promotion and disease prevention efforts should be strengthened.**

   The public health system (e.g., water and sewer service, environmental protection, occupational safety, etc.) should be strengthened to ensure the public's health, safety, and well-being. Public health efforts should: (1) increase citizen understanding and awareness of health, environmental and safety issues and problems; (2) improve access to primary and preventive care services, such as maternal and child health care, immunizations, and nutrition counseling; (3) conduct health, environmental, and safety-related research; (4) coordinate the collection and dissemination of information about health, environmental, and safety issues; and (5) assure compliance with health, environmental, and safety standards.

9. **Individuals share a responsibility for safeguarding their health by educating themselves and taking appropriate preventive measures to protect their health, safety, and well-being.**

   The government, health care providers, and consumer organizations share in the responsibility to educate the public about health care. Differentials in contributions for health care coverage to encourage healthy behavior can be appropriate as long as they do not deny access to health care.

10. **The acute and long-term care systems should be coordinated to ensure a continuum of care across an individual's lifetime.**

Preamble

AARP believes that the United States has the resources to ensure access to acute and long term care for all individuals, and to control health care costs without compromising quality of care. Efforts to reform the health care system must recognize the need to provide acute and long term care over the course of an individual's lifetime. AARP recognizes that advancement may be achieved in incremental steps, but we believe that each of these steps should move the country closer to the goal of comprehensive, affordable acute and long term care for people of all ages.

The following sets of principles are designed to guide the Association in its efforts to reform our current acute and long term care systems. The principles do not address every specific issues relating to health care reform, but they do establish criteria for evaluating and comparing reform proposals. They also serve to guide the Association in its participation in the public debate over health care reform.

Long Term Care Principles:

1. Long-term care services should be available to all people who need them, regardless of age or income. The long-term care program should base eligibility for services on a person's physical and cognitive functioning, including limitations in performing activities of daily living (e.g., eating, bathing and dressing) and a person's need for supervision. Uniform, national assessments should determine whether a person meets the eligibility criteria for the program and the type and level of care that a person needs.

2. A national long-term care program should provide a comprehensive range of services. These services should include: (1) in-home assistance; (2) community services; (3) long-term care services in a full range of supportive housing options (4) institutional care; and (5) rehabilitative services. Long-term care should be provided in the least restrictive setting possible.

3. The new public program should assist, not replace, current informal caregivers. Families and friends need access to supportive services so that they are not unreasonably burdened and can continue to provide care. The services should include respite care, adult day care, and other types of assistance, such as an expanded dependent care tax credit.

4. Implementation of the public program must be phased-in to ensure orderly development of the new system. Expansion of services should be accompanied by development of a long-term care infrastructure, including health care personnel, that will permit the delivery of a comprehensive range of home, community and institutional services.

5. The principles of social insurance (e.g., Social Security or Medicare), and shared risk must be extended to long-term care. Under social insurance programs, individuals pay into the system and are then entitled to benefits when they are needed. By spreading the cost across the entire population, universal protection can be achieved in an affordable, equitable manner for everyone.

6. The new long-term care program should be financed primarily through taxes earmarked to a trust fund. Revenue sources could include payroll taxes, increased estate and gift taxes, income taxes and modest premiums. The new public program must be financed through taxes and premiums so that it does not increase the federal deficit.

7. The new public program must provide a solid foundation for protection, upon which the private sector can build. The private sector could supplement the public program by covering the program's copayments and deductibles, as well as services that the public program does not provide. Any private sector approach (e.g. long term care insurance) should be subject to strong standards to protect consumers from inadequate products.

8. Payment to providers of long-term care services must be reasonable and provide financial returns to providers who deliver quality care. Reimbursement systems for home, community, and institutional care must respond to clients' needs, promote delivery of quality care, and recognize the outcomes of care provided to clients.

9. Cost containment mechanisms must be built into the new long-term care system. Use of services could be controlled by providing a defined set of services to beneficiaries. Modest deductibles and copayments also should be included. However, people with low incomes should be protected.

10. The federal and state governments should assure delivery of quality care under the new long-term care program. Recent improvements in the quality assurance systems for nursing homes and home health agencies should be swiftly and vigorously enforced. In addition, new methods of assuring the quality of other home and community services must be found.

Chairman SASSER. I might remind our panelists that even though some of our Senators have had to leave, I am vitally interested in what you have to say this morning and so are millions of Americans watching these proceedings on C-Span. So we will move to you now, Dr. Blendon.

STATEMENT OF ROBERT J. BLENDON, SC. D., PROFESSOR AND CHAIRMAN, DEPARTMENT OF HEALTH POLICY AND MANAGEMENT, HARVARD SCHOOL OF PUBLIC HEALTH

Dr. BLENDON. It is the other way around, Senator. I run the only polling center in health care in the United States. We reanalyze every poll done since 1934 that ever says the word "medicine" or "health care." What I am here to tell you is we diagnosed the problem wrong about what is driving the issue. We are now at an all-time high public interest in national health insurance. The reason that it is being pushed has nothing to do with the 31 million, as if they were alone. Let me explain what is going on.

We have had 7 years where costs are doubling. The industrial community doesn't know how to control the costs, so they have been cutting the benefits for the work force. And included in your handout is a survey of corporate benefit officers, how they intend to control health care costs in the future. The bottom line is: I drop the dependent, I increase the copays, I reduce what I contribute.

What has happened is a mistaken identity about the 31 million. It goes as follows, these are the numbers: 28 percent of Americans will be without health insurance once within a 2¼-year period. It is not some unwashed group of people. They will find them. They are sitting in Mississippi waiting for us. One in four Americans, something happens to their job situation; their employer takes it away, or they go work somewhere else. We have scared the heck out of the working population. The working population who have insurance are afraid they are going to become the one in four. They are worried about the less fortunate, but I want to alert you, as with medicare catastrophic, they are worried about themselves first. That is, they want the Congress to pass a bill which will make sure that working people cannot lose their insurance or benefits.

And when you talk to the, this is how it goes: Just 3 months ago, Americans were asked what most worries you about your health care? Half of them said one of two things: I could lose my insurance or they could cut my benefits and my out-of-pocket costs could go up. Suddenly—and this is the one slide that explains it all. This is a question which says: How confident are you that your insurance will cover you for major health care costs, today and in the future?

It goes like this: Today, 30 percent of Americans say I don't have, it won't cover it. Tomorrow, 60 percent of Americans say I am not sure my insurance is going to be there to cover the cost.

What I want to alert you to, that is the people who are driving the national health insurance question, the people who think business is going to take their benefits away from them. What is very important is these people answer a different set of questions about what they want done. And I am going to quit in a minute, but a

mistake that is made, since my job is to poll people who don't live in the beltway is the view that the people around the country are a blank slate on this issue; that they have no views, they're waiting for experts to fly in from Harvard and from in this town.

Let me just summarize as follows: If anybody wanted to interview Americans, this is what they would have told you. For every single year prior to medicare catastrophic, on a survey Americans said I hate surcharges on income tax. That is a despicable thing to do to me. When it was enacted, the elderly said I hate surcharges on anything, on my income tax. We repealed it. A survey just done, guess what? I still had the idea.

Americans have very strong, fixed views about how they want to solve these issues, and many of the proposals—and one example will be here, and my friend Jack and I may conflict over this. And I was told not to use it if a Republican was in the room.

Chairman SASSER. There are none in the room.

Dr. BLENDON. Americans cannot get off the "e" word, employer. You say to them, how would you pay for this thing? Right away they said I want to split it with my employer.

Now, what they are unsure of is if the check should go to Blue Cross and Prudential or the check should go to medicare. They are actually split up the middle over that issue. The one thing they are totally agreed on is no national health program should ever be enacted which does not have the "e" word attached to it. And I say this because I fly into this town to discover people washing their mouths out, saying that the "e" word can never be used. Basically 65 percent of Americans say I will cut you a deal. I want my insurance covered; whoever employs me pays at least half the deal. Thank you.

I can tell you that there is a constituency for this, but it is a very conservative constituency.

Thank you.

[The prepared statement of Dr. Blendon follows:]

The American Public and the Emerging Debate Over Reforming Our Health Care System

Testimony by Robert J. Blendon, Sc.D.
Professor and Chairman
Department of Health Policy and Management
Harvard School of Public Health
before
U.S. Senate Budget Committee, Washington DC

March 5, 1991

Summary of Testimony

The American Public and the Emerging Debate Over Reforming Our Health Care System

I. Evidence of Growing Public Dissatisfaction with the United States Health Care System

- Support for national health insurance is at a 40-year high. Nine surveys conducted nationally and regionally in the U.S. since 1989 have demonstrated 60 to 72 percent support for such a program.

- Two of three surveys asking Americans if they would prefer the Canadian national health system to the U.S. system have found 62 and 66 percent willing to consider such a dramatic change in our system.

- Of 10 nations surveyed in the past 2 years, U.S. citizens express a greater support for fundamental change or rebuilding of their health system than citizens of all the other nations with the exception of Italy. (Nations include the U.K., Canada, West Germany, Sweden, Australia, and others.)

II. Factors Underlying Dissatisfaction

- The public's concern with the health care system is not a result of dissatisfaction with health care services. More than 75 percent of Americans are satisfied with the quality of hospital services they use and more than 85 percent express satisfaction with physician services.

- It appears that much of Americans' concern is derived from uncertainties in our largely employer-based system of coverage. Although about 15 percent of Americans are uninsured at any one time, 28 percent reported to the Census Bureau that they had been without coverage at some time in the past 2 years. Eighteen percent report a decline in the last two years in the insurance benefits provided by their employer and disputes over health benefits were the second most common reason for labor strikes in 1988 and 1989. A December 1990 Associated Press poll revealed that 1 in 7 Americans say they have changed or remained in a job because of health insurance benefits.

- At the root of these problems are public concerns about the cost of health care in this country. One in six (18 percent) of Americans say that a member of their family has delayed getting needed medical care because of the cost. Although 68 percent are confident that they can meet their current medical expenses, over 60 percent are uncertain that they will have the resources to do so in the future.

III. Realities about Public Support for Health Care Reform

- As in the past, Americans are torn over whether reform efforts should lead to an entirely public system or an expanded private-public system. Since the 1990s, the plurality has shifted to the public option, but there is no majority consensus.

- Support for reform declines as the public's understanding of the cost of such a program increases. There is little support for raising revenues through income taxes, more support for reallocation of existing resources or raising revenues through an earmarked sales tax or "sin" taxes.

- Americans are more willing to make hard choices for the poor than for themselves. Although health programs for poor children are popular, welfare programs are not, and Medicaid is trapped in the public's negative attitudes.

IV. Principles for Shaping a Public Consensus

- Principle 1: Any new universal health proposal should not attempt to resolve the dispute between those who favor a predominantly public versus who favor a predominant private system of financing health care. Rather it should contain elements of both.

- Principle 2: Any new universal health program should rely on taxes other than the progressive income tax as its major approach to financing.

- Principle 3: Some of the resources for a universal health program should come from the reallocation of funds already being spent within the health sector or from other (non health related) government programs.

- Principle 4: For those low-income groups not covered by other universal insurance proposals, transfer Medicaid to a locus outside the welfare system.

- Principle 5: Phase any new program in over a period of years.

Mr. Chairman, I would like to thank you for inviting me to testify today. My name is Robert Blendon. Currently, I am professor and chairman of the Department of Health Policy and Management at the Harvard School of Public Health. In addition, I am deputy director of Harvard University's Division of Health Policy Education and Research. Prior to this appointment, I served as Senior Vice President of the Robert Wood Johnson Foundation in Princeton, New Jersey.

In 1989, the Department of Health Policy and Management at the Harvard School of Public Health launched the Harvard Program on Public Opinion and Health Care. The program's focus is on the roles that public and leadership opinion play in the formation of health policy in the U.S. and abroad. We have published a number of reports on a range of topics including access to services, health insurance coverage, and attitudes about satisfaction with health systems and services. We also work with a number of different survey organizations to develop and conduct our own surveys and to advise on the design of health surveys which will be relevant to health policy research and development.

Recently, we have focused our energies on assessing the emerging debate about health care system reform in the United States. We have reviewed over 300 surveys conducted in the past four decades on health reform issues. In this discussion we focus on public support for a national solution to the problems of our health care system. More than fifty proposals for the implementation of national health insurance have been put forth the post-World War II period. Presidents Truman, Johnson and Nixon saw comprehensive initiatives fail, although Medicare and Medicaid were enacted during the Johnson presidency. In addition to the well-publicized opposition of professional groups to these proposals, public opinion during these eras was divided about making such major changes in the health care arrangements of Americans. In the absence of a consensus among supporters of reform about the type of plan that should be enacted, the opposition gained strength. It is clear that this scenario could be repeated in the current debate unless common ground is found. Our own research and our review of other studies has highlighted several themes in our nation's attitudes toward health care system reform which we will outline here.

Perception of a Need for Change

The need for change in the current U.S. system is widely recognized by leadership and policy groups and by the public. Although the United States spends more on a per person basis for health care than any other industrialized country ($2,051 U.S., $1,483 Canada, $1,093 West Germany, $915 Japan, $758 United Kingdom), we fail to provide access to health care insurance to all our citizens and our system is viewed more negatively by its populace than are the systems of several other industrialized nations. The results of a 10-nation survey conducted by Louis Harris and Associates, the Institute for the Future, and Harvard indicating a support for fundamental change in or complete rebuilding of health care systems are shown in the attached figures.

The force behind the call for reform in the U.S. is principally driven by two concerns: cost and uncertainty about maintaining health insurance benefits. In answer to an open-ended question about the most serious problem facing the U.S. health care system, the Roper Organization reports that 56 percent of respondents cite cost as the principal problem, and 32 percent say access to health insurance or services is their main concern. These findings are confirmed by other studies. Eighty-four percent of respondents to a 1990 Conference Board survey said the cost of medical care was a very serious or serious problem, greater than crime, pollution, AIDS, homelessness, poverty, unemployment and 14 other items. Only drug abuse ranked equally with medical care costs. The rising cost of health services is perhaps more clear to

Americans because they pay a substantial portion of those costs out-of-pocket. On average, Americans pay 26 percent of their health costs themselves, and nearly 20 percent pay more than 40 percent directly. This compares for example, with approximately 10 percent of bills paid out of pocket by citizens of Scandinavian countries. These conditions lead to a great deal of public uncertainty about their ability to cope with these costs in the future--although 68 percent of Americans are confident that they could cover their health costs if they had a serious illness today, 60 percent are worried that they will not be able to handle the costs in the future.

Rising health care costs are also the clear driving force behind the more recent involvement in this debate by many corporations in the U.S. Per capita costs in the U.S. rose from $1,016 in 1980 to a projected $2,425 in 1990. Large corporations say that the cost of providing health insurance benefits is hindering their ability to compete in international markets, small businesses claim that proposed government requirements for employers to provide insurance coverage would put them out of business. Disputes over health benefit premiums were the second leading cause of labor strikes in 1989. Employers surveyed by Business and Health magazine indicated that increasing premiums, deductibles and copayments were the options they would most likely use to cut their health care costs in the future.

The general public is getting the message from business. Today, more than 30 million people in the U.S. are without health insurance coverage, a figure that has grown by 25 percent since 1980. Because of its largely employment-based structure, the U.S. health care system provides little guarantee of continuing health insurance coverage to almost any individual and the threat of losing the coverage they have is quite worrisome to many Americans. While being without insurance is not a personal problem at any point in time for more than 15 percent of Americans, a 1989 Census Bureau survey underscores that Americans have reason to be worried. More than one in four Americans (28 percent) reported having been without insurance in the 28 month period prior to the survey. In 1989, a majority of insured persons were afraid they would lose their coverage if they changed jobs, or having a health problem or a work schedule that would disqualify them from obtaining coverage through many employers' policies. A 1990 Los Angeles Times survey found one in six adults (18 percent) reporting that their insurance benefits had been reduced over a two-year period, and since 1980 the share of health premiums paid by employers has declined from 80 percent to 69 percent, leaving employees to pay the difference.

Support for a National Health Insurance Plan

All of these factors have led Americans to look for ways to change a system that they believe needs major reform. Despite the fact that a number of polling organizations have surveyed Americans on these issues using a wide array of questions and concepts, there is remarkable consistency in the public's response to the two central national policy options that have been suggested in the U.S. One such model is a national health insurance scheme that would cover all Americans and be financed through taxation or Social Security. The model for this system that is most frequently cited is that in place in Canada, though given the lack of familiarity with this system in the United States it might be more commonly understood as Medicare for the entire U.S. population. In surveys conducted by Louis Harris, NBC, Gallup, the American Association for Retired Persons, the Roper Organization, the Los Angeles Times, and state polling units in Connecticut and Kentucky, approximately 65-70 percent of Americans support this type of approach, even given variations in question wording. In 1990 we reported that even during previous proposals to implement such a system in the United States, support had never been higher, and that support for a national health insurance program was at a 40 year high point.

The second approach to health reform that has been put forth, both by Richard Nixon in 1970 and in another form by the federal bipartisan Pepper Commission in 1990, is a plan that

would require all employers to provide private health insurance for their employees and create public insurance programs for the unemployed and poor. This type of program would address the fact that two-thirds of the uninsured in the U.S. are employed or are family members of someone who works. In several studies this type of plan has garnered a marginally greater measure of public support (5-10 percent) than an entirely government financed insurance system. In surveys conducted by a number of different organizations, 74-82 percent of Americans supported this type of proposal in 1989 and 1990.

The Public-Private Controversy

One problem with many of the surveys conducted on the preferred restructuring of the system is that pollsters do not often give the public both major options in one question in order to see which is preferable. As a result we are left with a large degree of support for each option and little sense of whether people are willing to make a choice, a controversial decision that is at the heart of making policy on this issue. Polls conducted by Louis Harris during the national health insurance debate in the 1970s showed that the public, when offered both options, was split over the choice between creating a new public system or modifying our current private-public system to expand insurance through employer requirements. Harris agreed to repeat this question in 1990 and found that there had been a slight shift in which option was supported by the plurality, but there was still no majority consensus. As noted earlier, if supporters of change are divided about the form that change should take, the will of the minority that wants no change could prevail.

Satisfaction with Health Services vs. Health Care System

What is sometimes perplexing about public attitudes toward the U.S, health care system is that the intense level of support for change in the system is not accompanied by dissatisfaction with personal health care services. In fact, the vast majority of Americans who use the health care system are generally very happy with those services. In a 1990 Gallup survey for the American Medical Association, 85 percent say they were very or somewhat satisfied with their most recent physician visit; in another survey, 88 percent were satisfied with the quality of their physician care and 76 percent with the quality of their hospital care.

What do these data mean when viewed in light of the public's dissatisfaction with the system as a whole? The public wants to maintain its existing health care arrangements, but they want the services they use to cost less and they want to be sure they will have insurance in the event of a serious illness.

This conclusion is supported by responses to a number of surveys in which the Americans indicate that they favor cost-control policies that would regulate hospital charges and physician fees, regionalize expensive medical technologies and reduce unnecessary hospitalizations, tests and procedures. However, they are not happy with proposals to limit choice of health care providers (as in health maintenance organizations), or limit care to the elderly or terminally ill purely as a cost-savings measure (There is considerable public support as a quality of life measure for allowing individuals and their families to refuse life-support measures when they are terminally ill, however.).

Will the Public Be Willing to Pay for Health Care Reform?

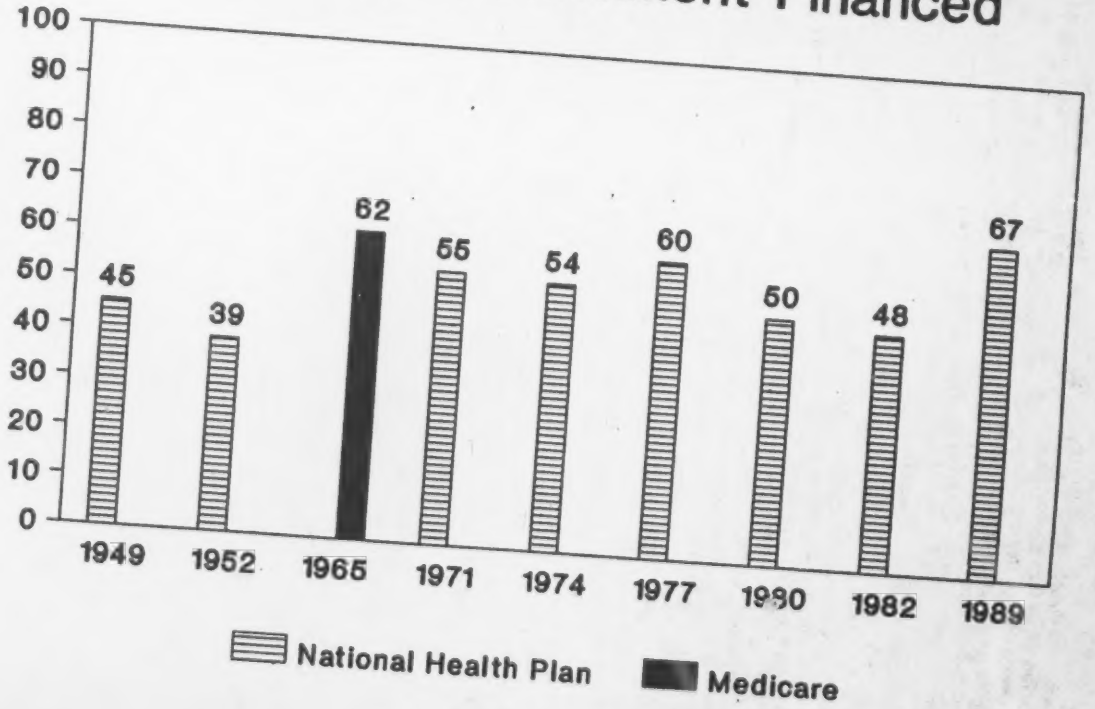
Three surveys undertaken between 1988 and 1990 show that the level of public support for the adoption of a national health insurance plan declines in proportion to the increase in taxes proposed to fund it. Americans will express support for this program if it entails a modest increase in their tax burden. The Los Angeles Times reported in 1990 that 72 percent would

support a national plan even if it entailed a tax increase. However, only 22 percent would be willing to pay more than $200/year to see this happen, and 33 percent remain undecided. Harris surveys have demonstrated that the most popular source of revenues to fund a universal health program are, in descending order, increases in taxes on cigarettes and liquor; social security taxes paid by employers for each employee; insurance premiums paid by the individual; and income taxes. Other surveys suggest support for an earmarked health-related sales tax.

Possibilities for Shaping a Consensus

Despite the high level of public interest in finding a solution to the nation's health care problems, there is as yet no agreement about what type of plan would be acceptable to Americans. Based on our analysis, we believe that five guidelines should be followed in the design of new national health insurance proposals if a public consensus is to be achieved: 1) Any new proposal should not try to resolve the dispute over whether the method of financing the system should be entirely public or private. Instead, it should contain elements of both. 2) Cost-containment proposals should not require dramatic changes in individual medical arrangements, but rather should focus on hospitals, doctors and insurers. 3) Years of opinion polling have suggested that health programs for poor children are supported by the public, welfare programs are not. As a result, the Medicaid programmed has suffered by its identification with public assistance programs. Therefore, the administration of the Medicaid program should be transferred to a locus outside the welfare system where it can be more readily identified as a health program. 4) Any new program should rely on taxes other than the progressive income tax for its principle method of funding, and revenues should be placed in a fund earmarked for this program. Given the current perceptions of wasted money in health care and other sectors of government, some of the resources for a program of universal health care should come from reallocation of funds already spent within the health system or other government programs. 5) Phase in any new program, and therefore the program's costs, over a period of years so as to blunt the impact on the taxpayer.

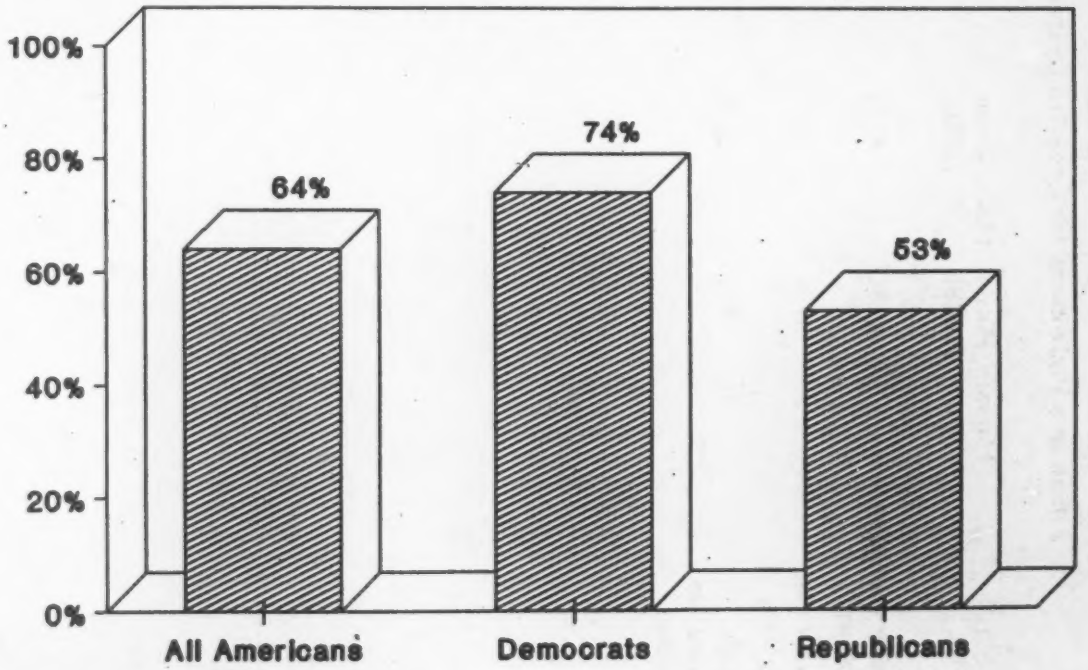
Support for a National Health Plan That Is Totally Government Financed



American's Preferences for Canadian System

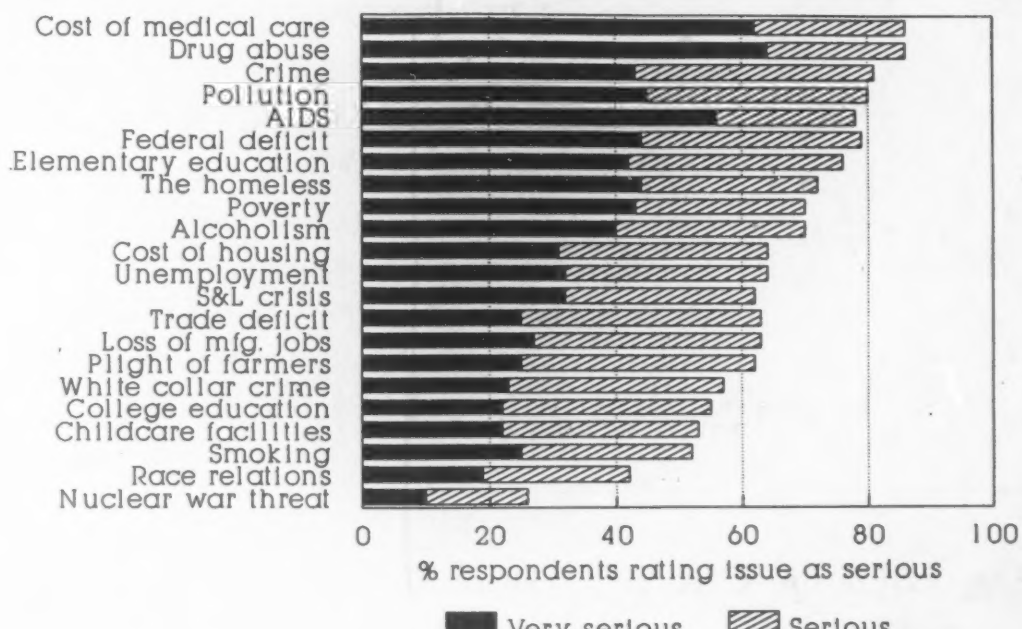
	Harvard/Harris (1988)	HIAA-Roper (1989)	Los Angeles Times (1990)
Prefer Canadian System	61%	45%	66%
Prefer Our System	37%	37%	25%
Don't Know/No Answer	2%	18%	9%

Favor National Health Insurance Financed By Taxes

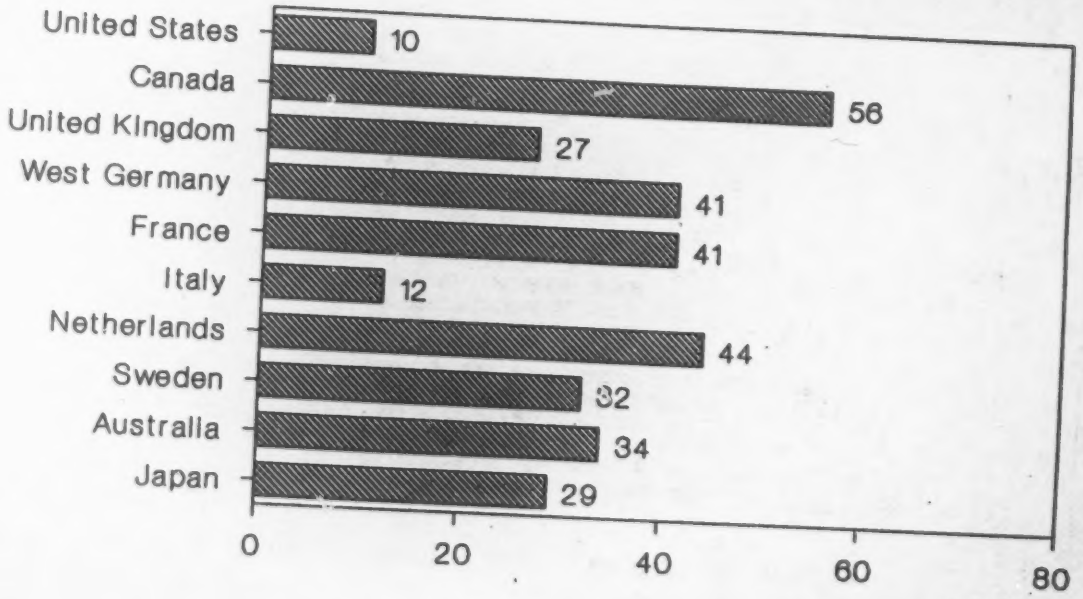


Source: The New York Times

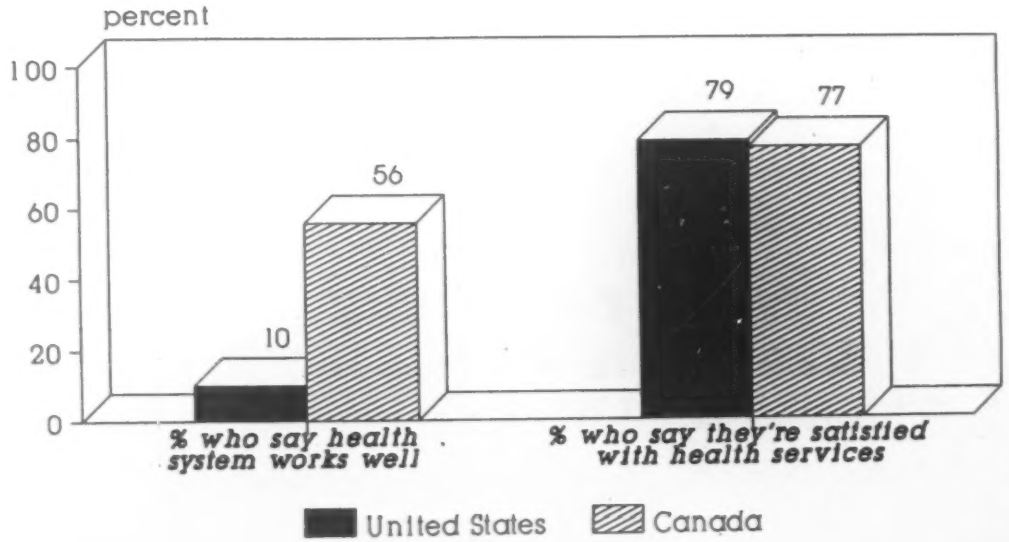
Here are a number of economic and social issues that are causing many people concern. How would you rate the seriousness of each?



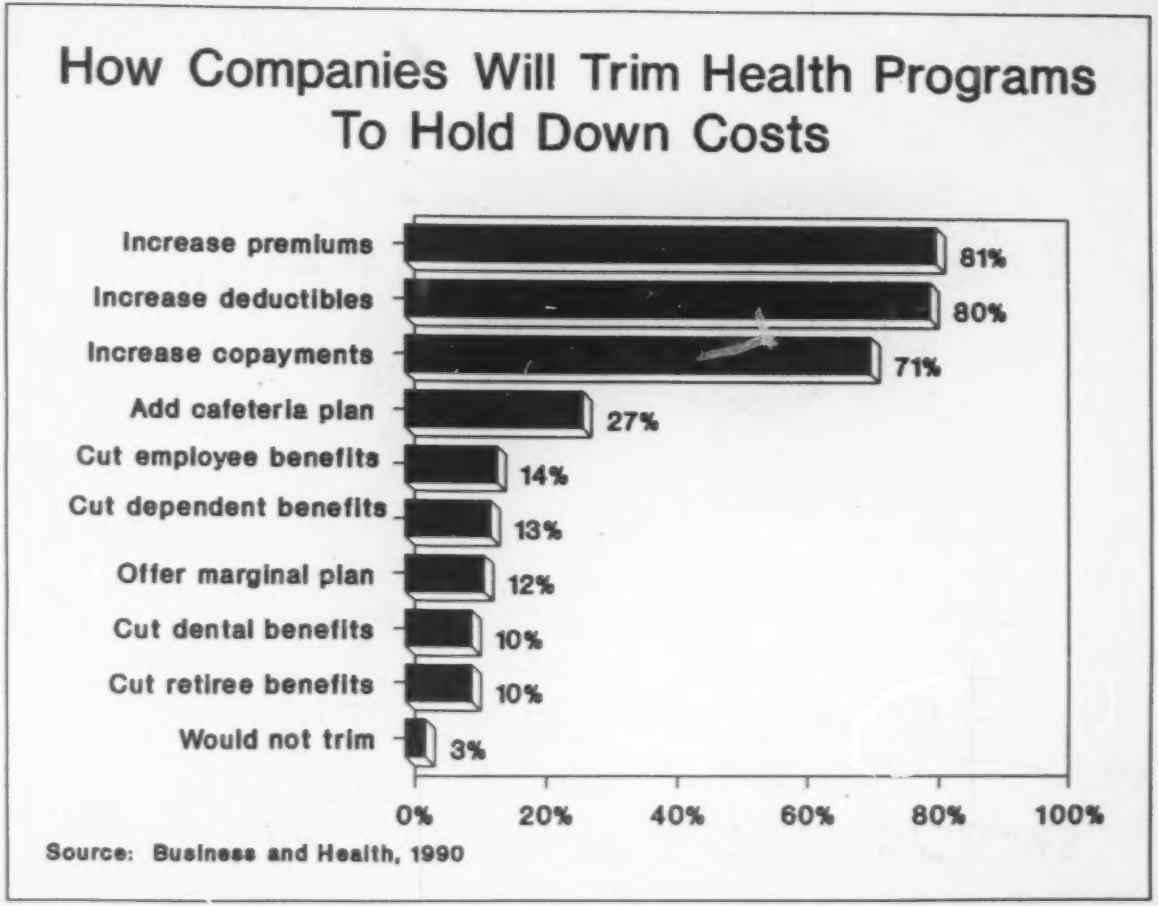
Percent of Citizens Who Think Their Nation's Health System Works Well

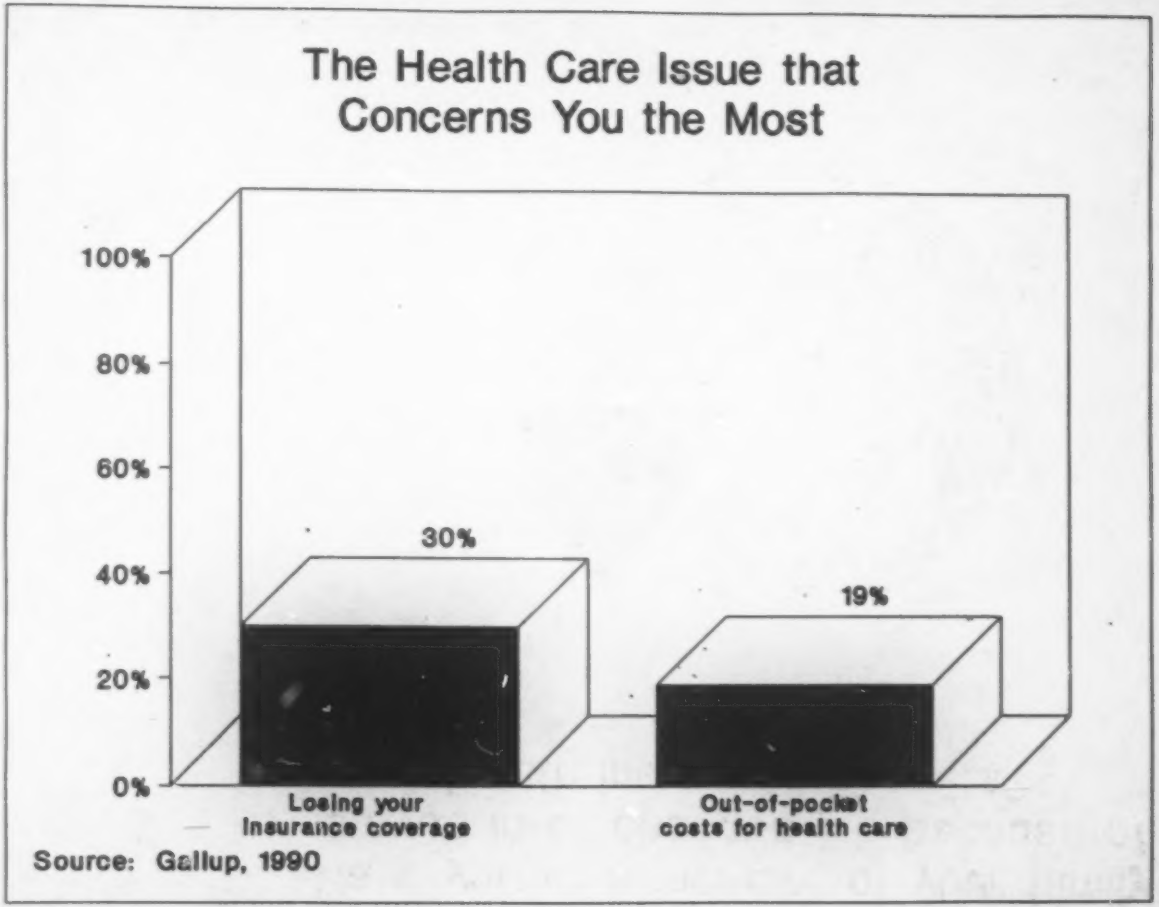


SATISFACTION WITH HEALTH SYSTEMS AND SERVICES, 1988-89
United States and Canada

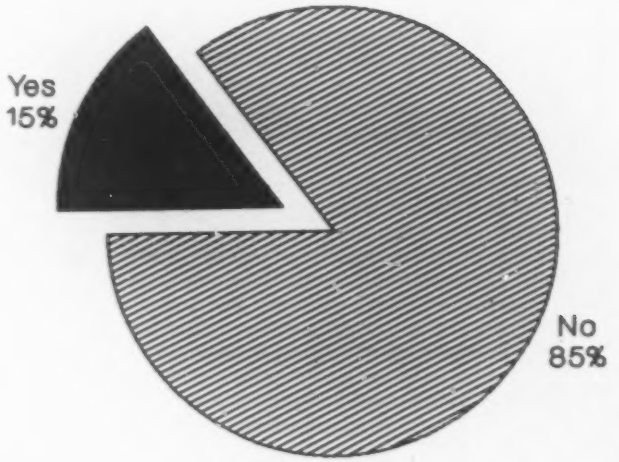


Louis Harris and Assoc, Gallup Canada

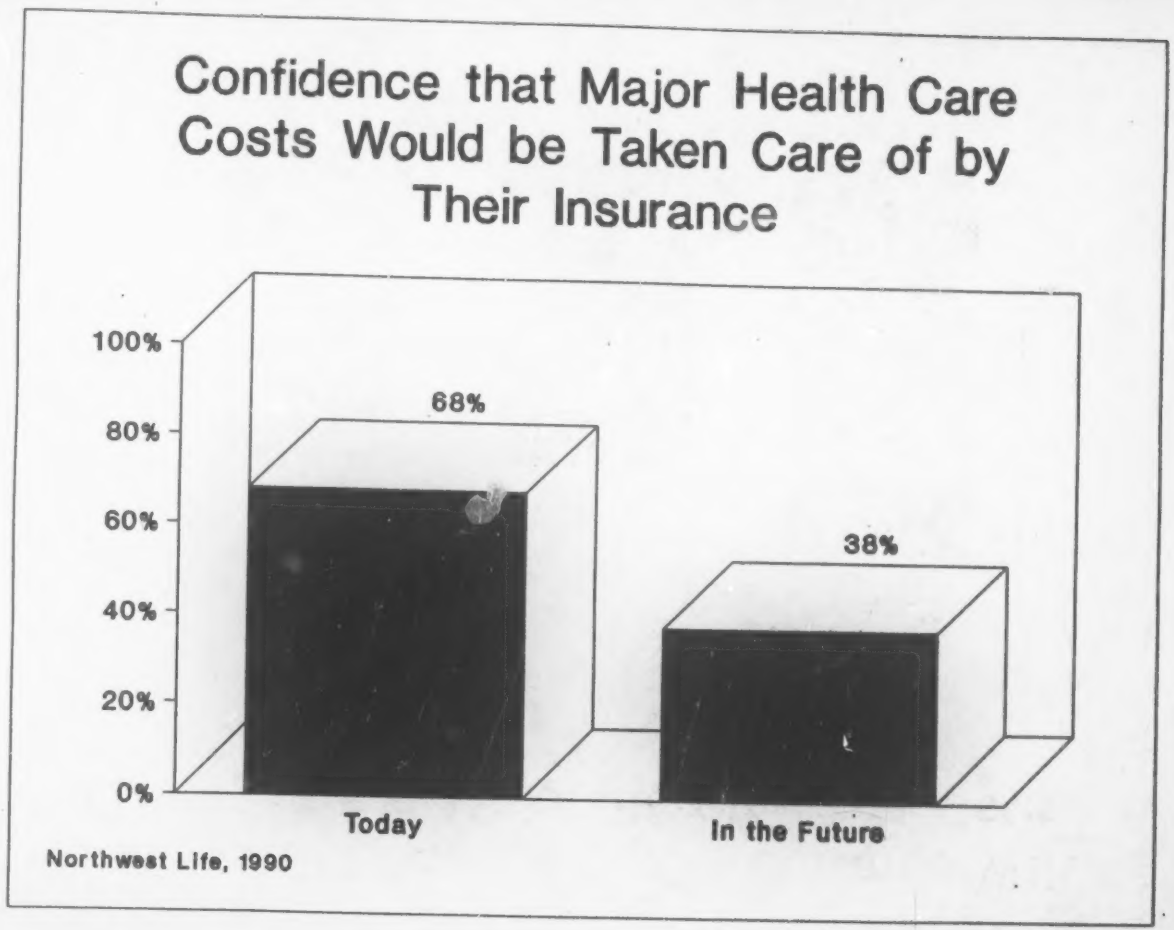

How Companies Will Trim Health Programs To Hold Down Costs
Increase premiums
81%
Increase deductibles
80%
Increase copayments
71%
Add cafeteria plan
27%
Cut employee benefits
14%
Cut dependent benefits
13%
Offer marginal plan
12%
Cut dental benefits
10%
Cut retiree benefits
10%
Would not trim
3%
0%
20%
40%
60%
80%
100%
Source: Business and Health, 1990

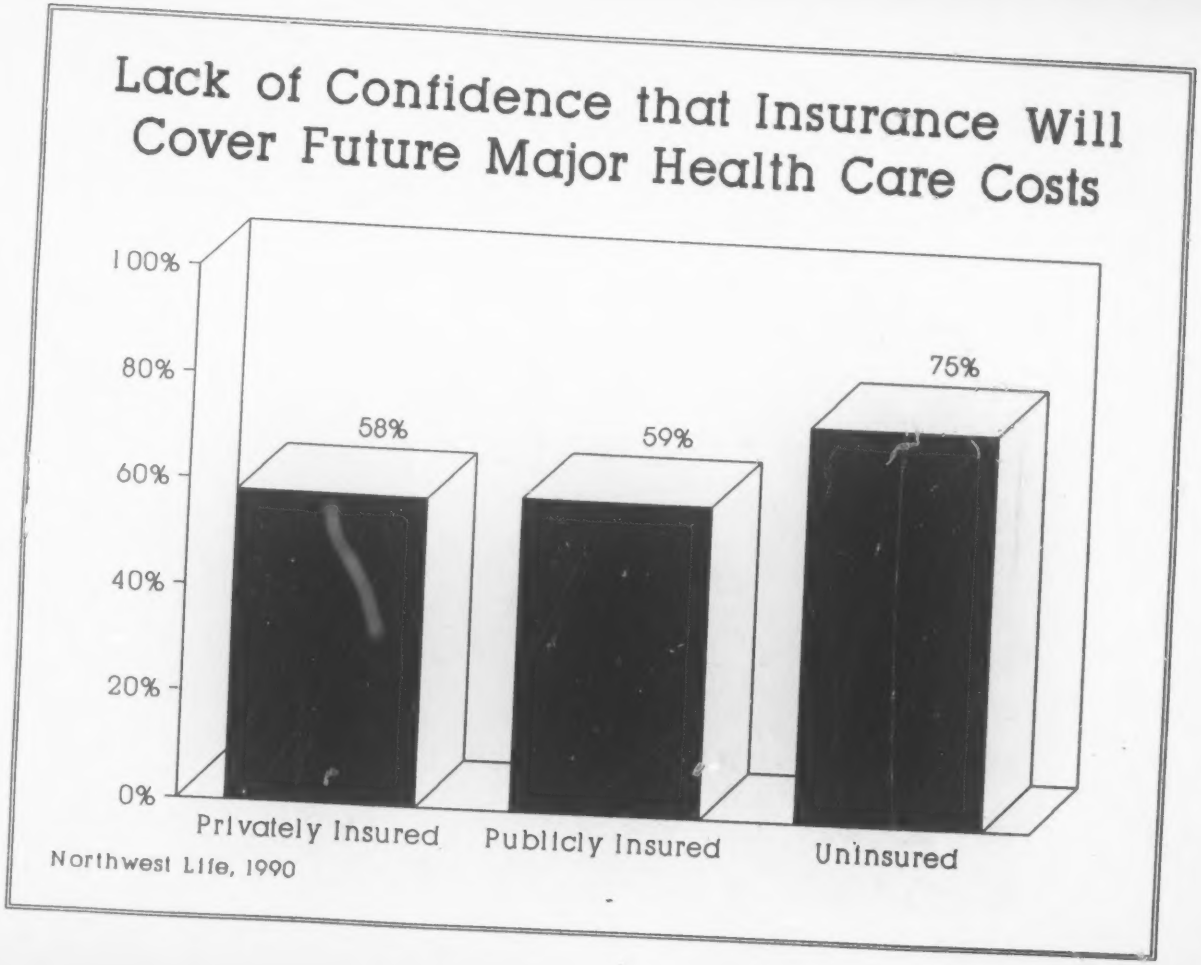

The Health Care Issue that Concerns You the Most
100%
80%
60%
40%
20%
0%
30%
19%
Losing your insurance coverage
Out-of-pocket costs for health care
Source: Gallup, 1990

Have you or a member of your family stayed in or changed job because of health insurance benefits?



Source: Associated Press, 1991


Confidence that Major Health Care Costs Would be Taken Care of by Their Insurance
100%
80%
60%
40%
20%
0%
68%
38%
Today
In the Future
Northwest Life, 1990

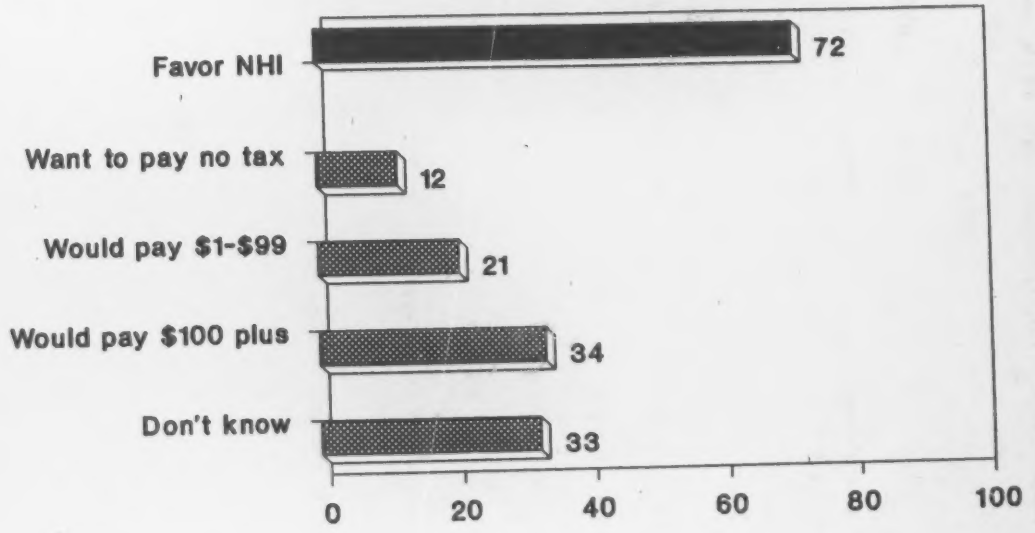

Lack of Confidence that Insurance Will Cover Future Major Health Care Costs
100%
80%
60%
40%
20%
0%
58%
59%
75%
Privately Insured
Publicly Insured
Uninsured
Northwest Life, 1990

Americans' Preferences for Universal Health Insurance System Options, 1972, 1976 and 1990

Option I:	1972	1976	1990
Favor an all government national health plan	22%	27%	46%
Option II:			
Favor a compulsory private insurance plan with government providing for the unemployed	40%	38%	33%
Option III:			
Favor no change in present system	30%	27%	19%

Source: Louis Harris and Associates, Inc.

Support for National Health Insurance and Willingness to Pay Taxes to Fund It



Source: Los Angeles Times, 1990

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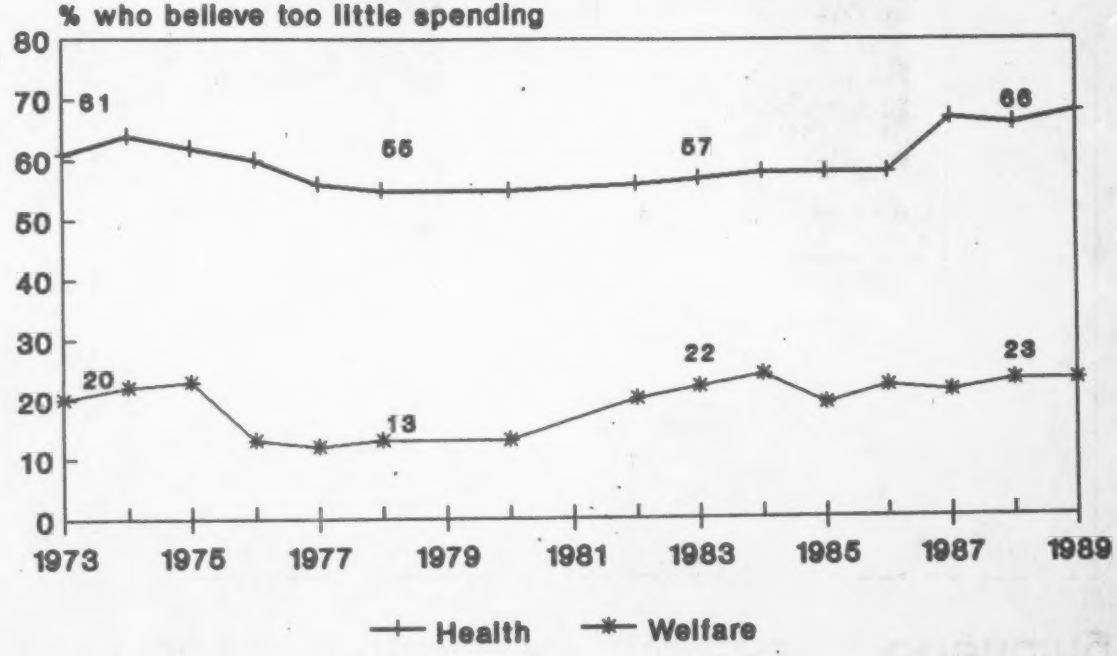
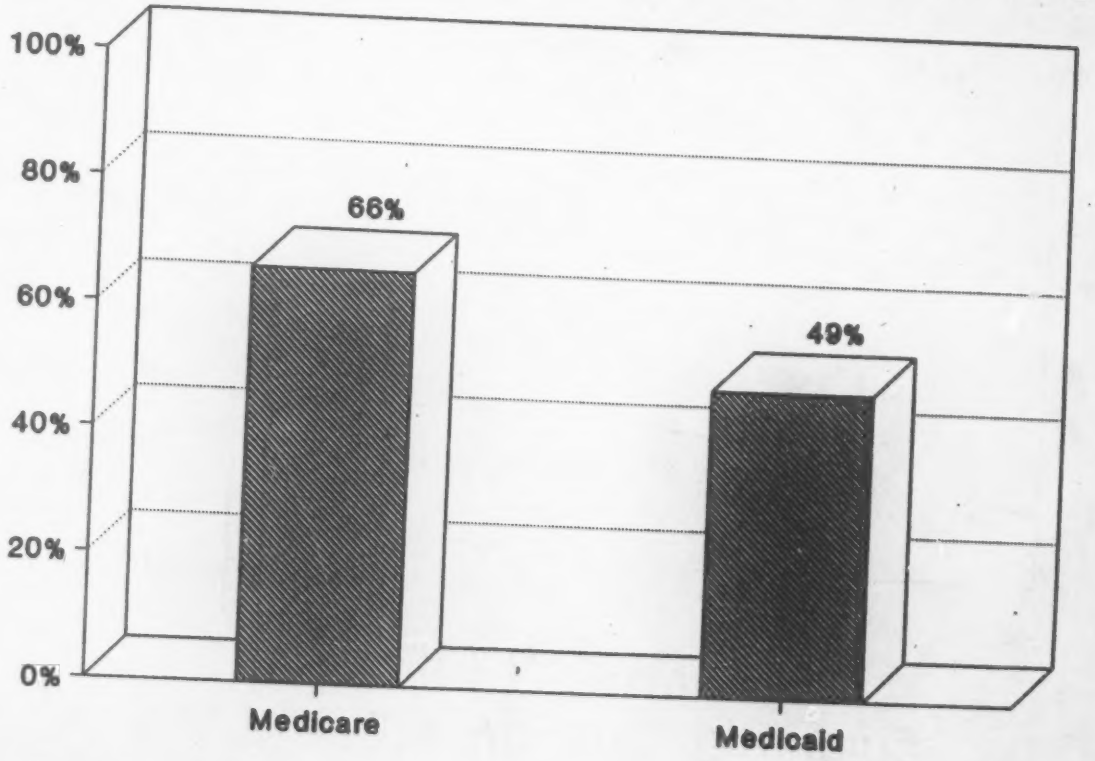
The Public's View of Spending on Health and Welfare



Public Support for Increased Spending



Source: National Opinion Research Center

Chairman SASSER. Mr. Meyer?

STATEMENT OF JACK A. MEYER, PRESIDENT, NEW DIRECTIONS FOR POLICY

Mr. MEYER. Thank you. My own forecast of health care costs for the year 2000 show them going to about $2 trillion. Now, that is the size of a lot of countries' total economies—and they are not just Third World countries. This increase represents a tripling of health costs in a decade. I don't think we are going to allow that to happen. At the same time, as you know, we have serious access problems, not only people lacking insurance but, as Bob has indicated, people who are fearful of losing it because of preexisting health conditions and the practices of insurance companies in circling the wagons around good risks.

Now, in my testimony, which I will just briefly highlight here, I lay out a kind of plan or approach to deal with these problems, and also with the problem that we don't really know the value and quality of the health care we are buying. We are delivering a lot of health care today of dubious quality and dubious value.

It seems to me the place to start is with replacing the medicaid program over time with a set of refundable income tax credits that would go to all Americans on a sliding scale basis related to their income. These credits would be sufficient in value to buy low-income people into a private health insurance plan. You would have to couple that with insurance market reforms and certain requirements on employers to make sure that they make an insurance vehicle available to workers. This is different from a requirement to fund health insurance coverage.

We have to end this unconscionable discrimination among the poor based on welfare status, which now determine whether you get any help with health care. And a system of tax credits would do that. We could also engage in medicaid expansion if we want to keep this program and expand it, including a buy-in program.

As it turns out, we could finance such a plan by placing a cap on the open-ended Federal tax preference alluded to by Dr. Sullivan in his testimony. If we put some sort of reasonable cap on the current tax exclusion, such as $250 a month on the amount that people in family health plans could exclude from income and $100 a month for individuals, that would bring in enough Federal revenue, about $10 to $12 billion a year, to fully finance a fairly generous program for low-income Americans. This cap would serve the interest of equity, but also efficiency because households would have some incentive to look at the cost of their plans.

As I noted, we have to couple that with reforms that make sure that a subsidy program does not just translate into massive risk selection on the basis of health status. Insurers have to be limited in their ability to medically underwrite people out of insurance. They have to practice open enrollment. There are probably going to have be minimum benefit requirements. They are going to have to guarantee renewability of coverge to small firms. Many of these reforms were enacted in the State of Connecticut and are being considered around the country.

I would also require employers—the "e" word—to offer an insurance package but not necessarily fund it. I am drawn to the 50–50 split, but I also point out to you that in some cases of small business, even that will lead to the "u" word, which is unemployment, for lower-wage workers. So we have to have a kind of tradeoff here, but certainly employers have to be in the picture.

I also think we need to couple this with a major effort—and the Congress has moved in this direction, but we have to go further—toward finding out what sort of health care works and eliminating unnecessary care. Developing protocols and guidelines for different types of medical practices will be very difficult. It will take a long time. Research can help.

Employers are beginning to do this. I would suggest that employers are doing a lot more today than simply shifting costs to employees, although they are doing that. They are beginning to develop preferred and exclusive provider arrangements which incentivize employees to go to those doctors and hospitals that have the best records in terms of performance, not just price discounting. This is slow to develop, but it is beginning to emerge. This will give us real value and not just cost-cutting.

We need to recognize that in the case of doctors and hospitals, like baseball players and football players, some are better than others at what they do—in this case, getting us well. Some are dangerous for our health, and we need to steer our dollars, whether through medicare or employers, to the providers with the best records.

Let me just briefly say a few words about medicare and how that fits in. Frankly, I have been discouraged to see the dialogue around medicare deal exclusively with the issues of how much we are going to pay doctors and hospitals. This is a program that is based on yesterday's premises and yesterday's profile of the elderly. It is going to run out of money around the end of the century unless we take some major steps.

The questions we are going to have to consider in medicare, as in the health care system on the whole, are not easy. They include the age of eligibility. We may have to make the same kind of steps for tomorrow's elderly in medicare that we made in social security, gradually raising the age of eligibility in the next century. We should start that dialogue now.

We are going to have to look at ability to pay part B premiums, and begin to scale premiums to beneficiaries' resources. I believe the administration's proposal dips a toe in this water. We are going to have to go much further than a threshold of $125,000 a year in income. We are going to have to recognize that a wealthy two-person elderly household is simply in a much better position to contribute to medicare part B than an elderly widow on a fixed social security check whose payments probably ought to be lowered. We need to graduate this, not just use one threshold.

You can do it in ways that do not consist of a tax surcharge, but one way or another, we are going to have to find a way to relate contributions to ability to pay. This is not means testing. I would not means test medicare.

We are going to have to recognize that medical malpractice and the tort system is a part of the problem and bring in some reforms

in the way we pay lawyers, not just the way we pay doctors. We should recognize that the current incentives are to do more and more in order to avoid litigation.

I think we also need to deal with the regulatory system. There are antimanaged care laws cropping up around the country that make it very difficult to control costs. There are State mandates that drive up the costs by loading up the benefit package with everything from chiropractic to acupuncture to in-vitro fertilization—all nice things, but they make health care unaffordable for the small employer.

So, in summary, I believe that we could put together a package that has welfare reform, that has regulatory reform, that has tort reform, that has purchasing reform in the public and private sectors, and begin to address the issues of cost, quality, and access. These are the key elements of my approach.

There are other ways to do it, but I believe that this way, with an emphasis on finding out what sort of health care works and rewarding its provision and finding out what sort of health care doesn't work and discouraging it, will lead us to a system with better quality for our money. This seems preferable to what many other countries have done, which is to slap controls on technology, and impose fee limits, which do save you money, but don't get you the best quality improvements in the health care system.

[The prepared statement of Mr. Meyer follows:]

Testimony of

Jack A. Meyer
President

New Directions for Policy
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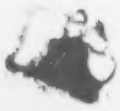
Washington, D.C. 20005

Prepared for

Committee on the Budget
U.S. Senate

March 5, 1991



We face three problems in health care today. First, the real cost of care is rising sharply and continuously. Second, access problems are widespread, and becoming more serious as the "free care" system and hidden subsidies dry up. Third, we have delayed for too long the effort to define and measure the quality of the health care services we are buying, to gauge the relative ability of different providers to deliver those services, and to use that information to purchase care selectively in consumers' best interests.

Powerful forces are pushing health costs upward. New medical technology is being developed at a rapid pace. Federal tax and subsidy systems underwrite the over-consumption of health care services even as they leave large segments of low and moderate income families out in the cold. Demographic trends -- most notably the aging of our population -- increasingly will be adding to health care costs in the future. Threats to our public health, including AIDS and drug and alcohol abuse, drive costs higher. And our medical malpractice system raises costs through the practice of "defensive medicine" -- ordering extra tests and procedures, for example, in order to have done everything possible.

These forces are particularly important to government health care programs. Population aging and technological development will put tremendous pressure on Medicare in the future, forcing us to rethink some of the basic parameters of that program.

Today, at least one of eight Americans has no health insurance, while millions more are under-insured. Some lack adequate or any protection because pre-existing health conditions price them (or screen them) out of affordable coverage. Payers are circling the wagons around the good risks and throwing out the bad risks. Others are uninsured because they or their employers (mostly smaller firms) simply cannot afford the comprehensive coverage mandated in most states, even if they could afford more basic coverage.

Regulation is driving up the price of health insurance by loading the benefit package and by placing unreasonable limits on efforts by purchasers and insurers to foster managed care. Many people are not permitted to buy just basic hospital and physician coverage, with X-rays and lab work included. Instead, they must buy costly packages that include coverage for podiatry, dental services, psychologists, chiropractors, and even in-vitro fertilization and acupuncture. And these services are not only mandated -- they are subsidized through the total exclusion of employer contributions to employees' health insurance from taxable income.

America thus faces a tragic irony: we have both too little and too much health care. We provide millions of people with incentives to over-consume services even as we abandon others who are forced to under-consume. We "gobble up" the extras, while neglecting the basics. At the same time as ads appear for cosmetic surgery to improve the look of male calf-muscles, nearly one-fifth of U.S. children have not been properly immunized for polio, measles, and other preventable childhood diseases by their second birthday. And the U.S. has the highest infant mortality rate of any major industrial nation (indeed, the rate for blacks is on a par with some third world nations).

The paradox of the U.S. health care system can also be seen by juxtaposing the growing evidence of unnecessary or questionable medical procedures against the shortfall in primary care services and prevention. One study shows that the rate of use of coronary angiography in small areas was 12.1 times as high in one county as in another; the corresponding figures for carotid endarterectomy and UGI endoscopy were 8.2 and 3.9. The authors concluded that "Overuse, which we define as inappropriate use, of these three procedures occurred in small areas with low use rates as well as in areas with high use rates." (Leape et. al., 1990)

Another study shows that three-fourths of the surgeons performing carotid endarterectomies on Medicare patients conducted less than 10 per year; the average was 3.4; and about one-fourth performed only one per year. (Leape et. al., 1989)

Major questions have also been raised about the incidence of coronary artery bypass surgery, pacemaker implants, gall bladder removals, hysterectomies, prostatectomies, and Caesarian sections. Quite simply, consumers are being over-tested, over-operated on, and over-medicated -- yet we have not changed the system to alter these results.

Medicaid coverage of the poor has declined significantly, from about two-thirds of the population below the poverty line in the mid-1970s to less than half today. Prenatal care is frequently received too late to avoid pregnancy complications and premature births, while important services such as well-baby care often go unreimbursed.

These serious imbalances must be corrected. Cost-generating incentives must be replaced with incentives to be cost-effective, and government subsidies must be better targeted.

Unless we fundamentally restructure our health care system, we will see a continuation of administered prices under government programs, cost-shifting, risk selection, and consumer vulnerability. This will lead us inexorably to a system of national price and technology controls. Such controls are not the best way to achieve the goals for our health system, to which I now turn.

Goals for Our Health System

The goals of the U.S. health care system should be geared to correcting the problems outlined above.

1) All Americans should have regular access to good quality health care for basic needs.

2) The productivity of the health care system should be improved to make it provide better health outcomes in a more efficient manner, so that we get more health care for each dollar spent.

3) The quality of health care should be improved by measuring providers' performance and strengthening the incentive to eliminate unnecessary or harmful procedures without discouraging innovation.

The principles that should guide our pursuit of the goals just stated are as follows:

- No one should go without needed health care because it is unaffordable; everyone should have ready access to at least some basic level of services.

- To achieve this, everyone should have some basic level of health insurance coverage; however, government subsidies of coverage or care should be based on financial need and should be carefully designed not to distort employer or employee incentives to purchase prudently.

- Cost discipline should be built into all efforts to improve access to care, and should be achieved through incentives rather than controls.

- These incentives should steer patients and providers toward the use of managed care and away from open-ended financing arrangements; they should also steer patients toward providers who produce the best outcomes at a competitive cost level.

- Providers of health care should be paid in a way that rewards those delivering good quality and value, and penalizes those delivering poor quality and value.

- Measures of medical necessity, appropriateness, effectiveness, and efficiency must be agreed to and implemented in order to define quality and ascertain who is doing the best job of providing it.

- The U.S. should maintain a pluralistic, decentralized delivery system to stimulate innovation in basic medical research and in the delivery and financing of health care; we should not freeze the system or block new competitors from entering the market.

To achieve the goals presented here in a way that is consistent with the basic principles just outlined, the following strategy is recommended:

Consumer Quality Choice Purchasing

Business, labor, and government need to change the way they purchase health care. To underpin this effort, we need greater investments in outcomes research and evaluation. This research and evaluation will help providers determine standards of appropriate care. Without such standards, bill payers are underwriting an unknown mix of appropriate, useless, and even deleterious care.

A corresponding investment must be made in obtaining information about the performance of specific providers in delivering effective care. Who does it best? Who does it worst? Furthermore, this information should be made public to help educate consumers and purchasers.

Thus, we should equip purchasers to buy prudently through a three-part strategy: 1) basic research on health care outcomes and appropriateness of various procedures under different circumstances; 2) the development of case-mix-adjusted information on the relative effectiveness of providers; and 3) public dissemination of this information.

Foster New Forms of Managed Care

Managed care plans should develop standards for selecting effective health care providers, direct patients to care that is appropriate for their conditions and provided in the most efficient manner, offer incentives that channel patients to the effective and efficient providers, and continually review utilization and seek to improve quality. Many of these plans give patients the right to choose whether to use "in-plan" or "out-of-plan" providers, but attach strong financial consequences in the form of heavy cost sharing for using non-participating providers. Good managed care plans carefully organize and integrate the resources devoted to providing care.

The essence of managed care is the combination of selective contracting with appropriate medical management. In my view, public and private sector purchasers should extend the concept of selective contracting well beyond a call to all price discounters to shave their list prices. Providers must be selected on the basis of their demonstrated performance, measured by the quality of care they deliver and the health outcomes they produce (adjusted for the severity of illness of their caseload). Good medical management includes the use of alternative treatment plans that achieve the same or better health outcome in lower-cost settings. It often steers patients away from institutional care that is not only costlier but also less pleasant -- and occasionally risky.

Medicare must be included with private purchasers in any successful strategy to reform health care markets, because of its importance as a purchaser of care in most communities. We should go beyond DRGs and ETs for physicians, toward quality measurement and selective contracting.

Just like smart private purchasers, Medicare should find and reward effective providers. It should move from administered hospital prices and physician caps that reward or penalize doctors as a group to a purchasing program that steers patients toward providers with the best practice patterns and best performance records.

Medicaid Expansion/Tax Credits

A critical part of an incentives-based package must be a major effort to arm all consumers with adequate purchasing power to afford basic health insurance and assure that a mechanism is in place for them to buy that coverage. Funding for low-income households and an insurance pool are both needed -- one without the other is insufficient.

There are at least two ways to provide the funding. A refundable federal income tax credit could provide all low-income consumers with enough money to purchase at least basic health care coverage. A broad version of this approach would substitute this credit for the current exclusion from income tax of employer contributions to employees' health insurance. Under this approach, all Americans would receive the credit, which would be earmarked for health insurance (i.e., it could only be used to purchase a qualified health insurance plan). This idea was first proposed by Professor Alain Enthoven. A narrow version of the tax credit approach involves providing a refundable credit equal to the full cost of a basic insurance package for the poor, with a gradually diminishing subsidy for the near-poor.

An alternative approach centers on Medicaid expansion. This would provide joint federal and state funding for states to provide Medicaid coverage for a greater share of the poor, and allow near-poor people to "buy in" to Medicaid with reasonable financial contributions related to their incomes. A tax credit could be used either to finance the low-income worker's contribution to a private group plan or to cover the household's contribution to Medicaid (i.e., to help the household buy in). Thus, the two approaches could be combined.

Employers could be required to make at least one insurance plan available to their workers who then would have the advantage of a group rate. Unlike mandated benefits proposals, this approach would not force firms to fund health insurance or offer some set group of covered services. But employers would have to provide the insurance vehicle.

One important caveat should be noted. The new earmarked public assistance must be scaled down sharply and phased out at some point such as 150 percent of the federal poverty line. This type of phase-down may need to be combined with a "maintenance of effort" requirement for employers to keep them from "dumping" workers onto the Medicaid rolls.

Whether assistance to low-income households takes the form of Medicaid expansion or tax credits, or some combination of the two, it must be financed. I estimate that the total cost would be in the range of $10-12 billion a year, about 55 percent of which would be paid by the federal government if Medicaid expansion were used (100 percent of the cost would be federal under a tax credit approach).

One financing option is to place a ceiling on the amount of employer contributions to health insurance that may be excluded from federal income tax liability by employees. A "cap" of $250 a month for family coverage and $100 a month for individual coverage (in 1991 dollars) would raise an estimated $ 46.7 billion in new federal revenues over the 1991-1995 period (CBO, 1990). This would be approximately enough to fully finance assistance to the poor and near-poor.

Financing coverage for low-income people in this fashion would have the added benefit of withdrawing the open-ended invitation to consumers to load up the insurance benefit package with more and more extra covered services. Under present law, every item added to the package is partially underwritten by federal taxpayers at large -- including the millions of taxpayers with skimpy insurance coverage or none at all! Thus, a family headed by a low or moderate income worker (e.g. $15,000 a year) working at a job with no health insurance is contributing federal tax dollars to help underwrite the cost of another worker, earning much more money, adding chiropractic services or podiatry care to his insurance package.

In addition to the obvious improvement in equity that would result from putting a ceiling on this tax benefit, with the proceeds used to help the poor, there are potential efficiency gains as well. Consumers will have a financial incentive to select a health plan that does a better job of controlling costs than another plan. Above some limit, selecting the high-cost plan will expose the consumer to a small tax liability.

Other financing options include higher taxes on alcohol and tobacco products, a consumption tax, and reductions in government outlays elsewhere in the budget.

Medicaid Reform

Medicaid must be reformed as it is expanded. Today, it exemplifies our fixation with suppressing providers' prices while paying insufficient attention to their practice patterns. Medicaid payments per unit of service are pathetically low, while inappropriate care in emergency room settings and unnecessary referrals to specialists abound.

Incentives for primary care doctors to participate in the program need to be improved by paying more reasonable fees. Greater use of case management is needed to steer recipients toward care in the most cost-effective setting while avoiding unnecessary or inappropriate care. Finally, more risk-sharing arrangements should be established between providers and the government.

A combination of Medicaid expansion, Medicaid reform, and the substitution of fixed-dollar, well-targeted tax credits for open-ended tax subsidies that leave out the poor will restructure the current system as we expand it.

Tax Incentives

Under current tax law, self-employed people and unincorporated businesses cannot avail themselves of the tax preferences afforded to employees, who are permitted to exclude from taxable income the full value of their employer's contribution to their health insurance. While the social value and fairness of this tax preference are dubious, if we are going to keep it, we ought to apply it to proprietors on a like basis.

We should also consider some temporary tax incentives for small firms that are not providing health insurance to offer it and make a significant financial contribution. This could be accomplished through a temporary fixed dollar tax credit that would phase out after two years. Again, these approaches concentrate on creating incentives for employers to provide and fund health insurance. This approach can be sharply contrasted with one that simply requires firms to pay for health coverage, without paying any attention to affordability. Flat employer mandates simply move the problem "off-budget," and represent another form of cost-shifting. Most injured by this process would be relatively low-wage workers who would be "dispensable."

Regulatory Reforms

We need to remove regulatory impediments to the spread of insurance coverage to more people and effective cost control. A key barrier to the spread of insurance is the wide array of state mandated benefits. As noted earlier, these mandates price insurance out of reach for many firms and workers.

The federal government could preempt these mandates as a part of a new insurance coverage expansion program. This pre-exemption could be brought about by allowing coalitions of small firms to self-insure, and thereby gain the same exemptions from state mandates enjoyed by large firms that self-insure.

Another important regulatory reform is to block or overturn laws that stifle preferred provider arrangements, selective contracting, and managed care. These anti-competitive measures often masquerade under such hard-to-oppose names as "freedom-of-choice" and "anti-discrimination" laws. But, in actual practice, they make it virtually impossible for a market to work.

We should review federal, state, and local laws that have the effect of raising health care costs by blocking entry of health professionals into the market or by shackling health care facilities with anachronistic regulations. Medicare and Medicaid should review their conditions of participation to ferret out such rules that are out of date.

Another important aspect of regulatory reform involves setting some new ground rules for the private insurance industry. The social contract in which the healthy subsidize the sick through an insurance pool is breaking down in the U.S., and high-risk patients are in danger of being screened out of insurance.

The problem can be addressed through such measures as requiring open enrollment and minimum benefit provisions for qualified health plans (the latter would have to be kept to a minimum to avoid the problem noted earlier with state mandates). Limits would be set on the rates that high-risk patients could be charged. Insurers would be prohibited from conducting medical underwriting and required to assure renewability of policies to employee groups. There would be limits set on the use of pre-existing conditions.

Reducing risk selection may also require a program of reinsurance under which private health insurers are themselves "reinsured" against extremely large outlays per patient. Insurers and the employers who are their customers would pay premiums to an entity to help defray the cost of this program. It would be important to spread the cost of reinsurance premiums over all payers in the community.

Reforms in the Tort System

We should make reforms in our malpractice system to reduce health care costs and stop physicians from abandoning their practices (particularly in low-income neighborhoods). These reforms could include requiring physicians and other health care providers to take periodic examinations to renew their licenses. They could also include reasonable limits on the portion of awards not related to, and on top of, full compensation for all costs pertaining to medical bills, rehabilitation, and so on. And we could make greater use of alternative dispute resolution mechanisms.

We should also consider allowing collateral source offsets to reduce duplicative payments, establishing standards of informed patient consent, and placing limits on the doctrine of joint and several liability. Finally, we could reconsider the way attorneys are paid in tort liability cases (i.e., on a contingent fee basis that drives up the size of claims and, ultimately, of settlements).

Mandate on Consumers

To round out the effort to expand access, we should have a mandate on consumers to purchase at least basic health care coverage. With a tax credit/Medicaid expansion program, a requirement that employers provide an insurance vehicle to workers, and a significant reinsurance program in place, it would be fair to eliminate "free riders" through mandates requiring that all individuals have at least catastrophic coverage. Without low-income assistance and a program to deal with high-risk consumers, however, it would be unfair to impose this sort of mandate. The social safety net should be made truly secure first, and then the mandate on individuals would complete the process of moving toward universal coverage.

A New Approach to Medicare

Greater use of prudent purchasing and managed care can take some of the pressure off Medicare but cannot reconcile today's benefit structure with tomorrow's demographics and scientific development. It is time to start planning now, during the short window of opportunity that is open in this decade, for a Medicare program that meets our needs in the next century.

The elderly are a very heterogeneous group in terms of income and wealth; yet, programs such as Medicare treat them all alike. This needs to change in a way that avoids means-testing and preserves the universal participation that has served Medicare and Social Security well. We should begin to vary the contributions that senior citizens make to their coverage with their financial resources. The administration's proposal in the budget is a step in the right direction, though the number of people affected by their proposed threshold of $125,000 in annual income would be quite small. Ultimately, we need to scale the subsidies on a more graduated basis that asks a little more from middle and upper-income people while shielding the lower-income elderly.

We should also consider raising the age of Medicare eligibility in the early part of the next century. The precedent set by the 1983 Social Security amendments (raising the eligibility for regular old-age benefits in small annual increments from 65 to 67 years of age) would be a useful guide for Medicare.

A word of caution is in order. The reforms described here, if successful, should obviate the need to ration health care to a greater extent than occurs today. They are designed to make the U.S. health care system both more efficient and more equitable. A leaner and fairer system will not have to ration as much as one that is bloated with unnecessary care and unduly high prices. But, many of the improvements we will make in our health care system will yield one-time savings and will not significantly affect the slope of the long-run cost curve. Given the explosion of medical technology and looming demographic changes, we will have to make greater use of rationing if we are to decelerate the growth rate of health care costs.

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Chairman SASSER. Gentlemen, thank you very much. We are going to recess here for 5 minutes. I am going to have to make some arrangements, and we will return.

The committee will stand in recess for 5 minutes.

[Recess.]

Chairman SASSER. The committee will come to order.

Mr. Maxwell, one of the fears about a new income-related premium for medicare is that those beneficiaries who would be required to pay more might just decide to opt out of medicare part B. Do you think this would happen? And if so, why? I mean, the new premium would still be lower than what private health insurance costs might be.

Mr. MAXWELL. I was surprised, Senator, to hear the estimate that 500,000 people would be involved. I think you are going to find a bloc of folk, just as in the case of the catastrophic bill, who will consider this a personal attack on their financing and will again deluge you with objections to what they would consider unfair financing. I am certain that that is what killed the catastrophic bill.

Chairman SASSER. No question about that. I couldn't agree with you more. That is what killed it.

Mr. MAXWELL. And certainly there is no improvement in the benefits that would permit the Department to say, well, you are getting for this tripling of your premium, you are getting more protection or more benefits.

Chairman SASSER. At least you could say that with catastrophic, that even though the premium went up, they at least were getting something for it.

Mr. MAXWELL. They got a lot for it. The other thing is it just seems to me that it would be impossible for you to actually designate the people who would be in the categories that would be expected to pay the additional premium.

Chairman SASSER. Well, what does the rest of the panel think about that proposal?

Mr. MEYER. Well, I think you have to recognize that beneficiaries wouldn't be getting anything more, but we have to recognize also that medicare program costs are out of control. Medicare is the fastest growing part of the budget, despite myriad efforts by the Congress to put various types of controls on doctors and hospitals and others to control spending. And the bad news is it is going to get much worse. This has been out of control without the demographic factors kicking in. When you face the prospect of the baby boomers beginning to retire in 10 to 15 years, it is going to get much worse.

So the current issue of an income-related premium is just a little skirmish preparing us for the battle to come. The real issue is who is going to pay—who is going to reconcile the vast gap that is going to open up between revenues and outlays? Are we going to put it all on people as they work and pay in? And if so, we are going to have to raise the payroll tax steeply. That, too, is going to elicit a revolt of sorts. People don't like those taxes going up. It is already one of the biggest taxes we have and very regressive, leading to job loss. Or are we going to share this somehow between working people and retirees?

I suspect if we go the latter course, which I advocate, we will come up with an income-related premium, not just one category for people over $125,000, but a range of categories where what you contribute to your insurance depends on your ability to pay. Not because the people don't deserve a flat premium, but because we just have to vary it to rescue the program, or else we will have to raise some other type of tax.

Chairman SASSER. Mr. Meyer, from the rational, logical standpoint, that may make good sense. I emphasize "may." But the problem we run into is the same problem that Bob Maxwell just pointed out to us. I mean, you are going to put a heavier premium on them, and you are not getting them additional coverage. And then you get into the question of what is politically possible, and I say "politically" in the best sense of the term, because that means, what will the people accept. They are going to make the final decision.

We learned with catastrophic that even though we were giving them something more, they just would not accept the additional premium or surcharge, as Dr. Blendon called it.

Dr. BLENDON. Let me just take a minute here because I am in between. You will be able to get away with small additions. Basically, the support for the program is middle class. Secondly, there is a terrible mistaken identity that this is an over-65 issue. It turns out at the age of 50 people start thinking about retirement. So the troops are not just his troops unfortunately, or fortunately where you are, in the field. It turns out that 50-year-olders pay a lot of attention to this program. And what the middle class 50-year-older pays attention to is that you don't erode it and make it into a welfare program.

What happens is what they planned was their part of their retirement package, and recall every employer lays out with you this is what the private side will pay, this is what you will do. Suddenly this word is coming in that as the years go by, it was a big mistake and we are going to erode it for middle and upper middle income people. You will find a great deal of solidarity among middle-aged 50-year-old and up middle-income people not to want to push this very far.

See, the difference with Jack is that they believe that doctors can drive smaller cars—and I hate to be honest about this—that the hospitals could build their building 1 year later, that there could be some mergers of hospitals, and in the term there could be some supply side savings under medicare, and they don't have to have this hardship. And what happens is that there is a group of experts or others who think it is hopeless to save money out of the existing system. But the average middle-class person paying in believes there is money to be saved out of those doctors, hospitals, and drug companies. And before they pay this premium, they want to see those people sacrifice. That is the difference in the perception.

What one poll showed up with—and the pollster joked about it—you know times have changed when you go to the 7-Eleven and the doctors are driving anything but a Mercedes. Until then, don't tell me my premium has to be raised. How come their income doesn't go down? This is exactly what shows up in the polls.

Chairman SASSER. Well, interestingly enough, yesterday I traveled down to my State to a small town, on a very sad journey to attend the funeral services of one of our young men who had been killed in the Middle East. And as I was waiting at the small airport for a plane to take me out, this fellow pulls up in a long black Lincoln Town Car to do some flying. Well, he is one of the local doctors. And he indicated to me that what we need to do with medicare to make a savings is to reduce surgical fees. Now, I didn't query him as to whether or not he was a surgeon, but I thought, by golly, here is one physician who is standing up saying we need to reduce some of the fees. I doubt that he was a surgeon, however.

Mr. MEYER. Well, I would just say that I am all for pushing down fees if they are out of line with productivity and value delivered. We have been pushing that for 20 years, but I don't believe for a minute that a one-time reduction that you get by ratcheting down fees or closing an excess hospital bed is going to get us out of this mess. It would be nice. It would ring well in public opinion polls. But I think our job is to look beyond the polls and how we can lead people and be honest with them and say you just aren't going to get enough of that unless you want to lower doctors' fees to the point where they don't take old people, like some don't take poor people these days when we cut the fees down. We need to ask people honestly how they want to pay for this program? And maybe we can learn from social security and say we are not going to take anybody's benefits away today, but we are going to start planning for where this program will be in the future and change the rules of the game a little bit, rather than to pull the rug out from under you today with no notice.

rman SASSER. Dr. Blendon, in your written testimony, you noted that any new universal health program should rely on taxes other than a progressive income tax as the major way of financing it, if I understood it correctly.

Dr. BLENDON. Yes.

Chairman SASSER. Where are there new revenues for health care reform? Where do you think you ought to get them that would be most acceptable to the average American?

Dr. BLENDON. The most acceptable—once you get off the fact that people want to tax beer and wine and cigarettes and race tracks, once you get off that round, it is in the employer side. Basically they——

Chairman SASSER. It is the employer side?

Dr. BLENDON. Yes; and it is a matching. That is the premier situation. Then when you get past that, then you are into an issue of people favoring flatter taxes. They love hidden taxes. For instance, you have a split between wanting medicare or something like the Pepper Commission, there really is a split. And as soon as you add the taxes in, Americans say I like the Pepper Commission. Why do they like the Pepper Commission? Because they can't see the taxes.

So anything that is paid for, they would love a VAT tax. You could get a penny on a sales tax.

Chairman SASSER. I wish Senator Hollings was here to hear this because he is, as you know, a great advocate of the VAT tax and he has found someone who agrees with him.

Dr. BLENDON. But let me just make a point, because Jack and I agree philosophically, but unfortunately not from the surveys. Americans slide away from progressive taxes when they see them, and they like earmarked funds. What is so wonderful to the average American about social security is, Senator—they don't trust you. And if you put the money in the fund, they want it. So in all the surveys we have reviewed, if you say you take the money from them and put it in this special fund so you can't get your hands on it, it goes up ten points. If you say it goes into any general kitty, they don't want anything to do with it. So essentially, earmarked, more flat taxes are what sells.

Chairman SASSER. Well, you are quite right they don't trust us, Dr. Blendon, and I don't know why they should.

Dr. BLENDON. I didn't mean to come to Washington to tell you that.

Chairman SASSER. I know that. And why should they? They never read anything or see anything good about any Member of the Congress. When is the last time you saw a story that said Congressman X is a hard-working fellow who works 14 hours a day, is concerned about his constituents, passed up a good-paying job to work in Congress? You will never see that. So they don't trust us for that reason and a lot of other reasons. That is why I think you are quite correct about earmarking and collecting taxes or revenues for a specific purpose.

Now, Mr. Meyer, you seem to rely more heavily on tax incentives than others. Explain that to me. How do you figure that is going to work?

Mr. MEYER. Well, I think that employer mandates are going to have a number of adverse effects, and that is why I favor incentivizing employers to provide insurance instead of requiring them, so that it doesn't lead to layoffs.

There are several ways to do that, but one way is to provide a tax credit for a temporary period, such as a couple of years, as the State of Oregon is doing, to employers who are newly offering health insurance to help them get started. It wouldn't be dollar for dollar. It might be 40 or 50 cents on the dollar.

We also have a lot of the uninsured who are self-employed. They don't get the kind of tax break that you and I get. People that work for themselves or for unincorporated businesses get about a 25 percent deduction; whereas, the rest of us get dollar for dollar assistance. We could change that. There have been proposals in the Congress to do that, to give them the same sort of tax break we give to others.

And I think the most powerful tax incentive is the one I have already alluded to, which is the open-ended exclusion from income taxes of all employer contributions, which is quite popular. Bob and I were talking about the break. There is no question that my proposal to put some sort of a ceiling on this tax preference, and use that money to help the poor flunks both his tests. It is progressive, and it is general revenue, not earmarked in a fund. But I think it is good policy, and, you know, it is my job to come up and say what I think is the best approach. There are other ways to do it.

I think that current policy is unfair and leads, as Dr. Sullivan implied, to this bizarre situation where a man or woman works at $20,000 a year, has no health insurance from his or her employer, pays taxes—income taxes, payroll taxes and the like—some of which go to help an executive in an auto firm or another firm add orthodontia coverage for his kids, with taxpayers' dollars paying part of the tab. Now, this is just basically unfair. It may not be good politics in the short run to change it, but I think we also have to recognize that it inflates the demand for health services and is contributing both to the access problem and the cost problem.

So I would change those incentives, and I think we can use the tax system in the interest of equity and efficiency in those kinds of ways.

Chairman SASSER. Mr. Meyer, we may be able to, and I am not unsympathetic to your approach here at all. I don't mean to imply that. But there is going to have to be some kind of massive education effort before people will accept that.

Mr. MEYER. You are absolutely right. People want to believe——

Chairman SASSER. How are we going to do that? I mean, who is going to do that? How are you going to finance it? Who is going to take the lead in the education program?

Mr. MEYER. People want to believe that the answer to this problem is that it is the doctor or the insurance company or the pharmaceutical manufacturer, or some on the other side say it is the consumer who isn't behaving himself, isn't taking care of himself.

Those things all contribute, but I think the entire system itself is responsible, not just one set of actors. We need leadership in the public and private sectors that educates people that health care costs a lot because we have a growing economy, because we have medical science that is turning out new things to do every day that help people, because of our demographics, and because of the way we pay doctors and hospitals and the unlimited access most of us have to any doctor, regardless of his or her performance.

And so my message is we had better start educating people about it now. You want health costs under control? You are going to have to face some limits, limits on access to high technology, priorities set. We restart the hearts of 94-year-olds for the seventh time who have absolutely no chance of surviving more than a week or two, at the same time we don't make those investments in Head Start and prenatal care that have been alluded to here this morning. It is not going to be politically popular to say let's stop doing this and start doing that, but those are the kinds of decisions it is going to take. And that is why I made the remarks I did on medicare. It is the same sort of thing.

I think the physician community has to be part of the educational process, and our political leaders need to tell people that these are the sacrifices you are going to have to make if you want costs under control and if you want a more equitable distribution to our population.

Chairman SASSER. Well, Mr. Meyer, don't you know it is passe now to tell the electorate they have to make any sacrifices?

Mr. MEYER. I know.

Chairman SASSER. Nobody does that any more, for goodness sake. The last fellow that did that I think lost about 49 of 50 States, if I am not mistaken.

Mr. MEYER. That is why we have over a $300 billion deficit today.

Chairman SASSER. No question about it.

Mr. MEYER. Because we allow people to indulge themselves in more government than they are willing to pay for. You are right. And my kind of sober message is not always good politics. I am just saying that it is my job as an analyst to try to state what I think the facts are and educate people, and I think they are beginning to catch on. We have tried all this gimmickry, and it hasn't brought spending under control, either in health care or the entire budget.

Dr. BLENDON. Senator, if I might suggest, there is a tradeoff, and—part of Jack's issue—that is Americans want to be guaranteed that insurance comes with the job. If you ever enact a bill that guarantees Americans that every job comes with health insurance, it isn't clear to me that you couldn't get part of Jack's tax back because the biggest question—and this is what Werthlin helped do in the medicare catastrophic. He just asked one thing: Is it worth it to you to enact this bill? And 57 percent said no way. And what you want on a bill like this is 60 percent of the people to say it is worth it to me, even though there are pieces of it I don't like. His alone isn't likable. Put it in a guarantee every job comes with health care, you might be able to get his tradeoff on a cap and have some money to spend. But they walk away. What they are voting for is if I go work for the Apple look-alike, they won't compete with Apple by saying there is no health insurance in this company.

Chairman SASSER. Well, gentlemen, I thank you very much for your comments and observations today, and I hope that I haven't left you with the impression, Mr. Meyer, that I disagree with your views. It is simply a question of trying to find a practical, pragmatic way to deliver quality, affordable health care to the American people in a way that they will accept and understand. And it becomes very frustrating on occasion. And I think it is going to take some sort of large public information program, some sort of, for want of a better word, mass education program. The people know we have got a problem. But to define to them how we are going to reach a solution, and to tell them, it is going to take the whole society working together to try to reach a solution to the problem—the health care deliverers and the health care receivers and the political structure and all of us.

So we are working our way through it, and hopefully in my lifetime this problem will be resolved.

Gentlemen, thank you very much for appearing here today.

[Whereupon, at 12:32 p.m., the committee adjourned subject to the call of the Chair.]

PREPARED STATEMENT OF SENATOR CHARLES E. GRASSLEY

Mr. Chairman, I think it is appropriate that you have chosen to devote one of the committee's hearings on the President's budget to health care and to reform of the health care system.

I have several concerns about the health care proposals made in the President's budget for the next fiscal year. My first concern is with the Medicare proposals. Last year, we achieved substantial savings in the Medicare Program in the Budget

Reconciliation Act of 1990. I think many who were more-or-less parties to that agreement believed that we would leave the Medicare Program alone for a time. The President's budget however, is asking us to find another $2.9 billion in reductions in the program for fiscal year 1991, and $25.2 billion over 5 years.

Much of this comes from teaching hospitals, and those of us with major teaching facilities in our States are going to have to take a very hard look at these proposals.

I also have concerns about the proposals to reallocate and redirect funds from the maternal and child health program and community and migrant health programs to 10 sites around the country.

While I very much appreciate what the proposal is trying to accomplish, I am unable to forget that we have serious maternal and child health and infant mortality problems in Iowa. Recently, the director of the Iowa Department of Public Health wrote to tell me that the numbers of low-income children seen in child health programs funded with block grant moneys have increased 35 percent from 1987 to 1990, while the actual Federal funds available for child health have decreased 8 percent. The number of pregnant women using maternal health services has increased 59 percent, while funding was increased only 20 percent. Most of the increase in funding has been from the State Government.

I have had Iowa community health center directors in my office already, expressing concerns about the reductions in their budgets that implementation of this proposal could cause.

The testimony we will take today on health care reform will also be a helpful and timely addition to the building debate on reform of the health care system. We are fortunate to have such experienced and thoughtful witnesses to discuss this issue with us today.

With that, Mr. Chairman, I have finished and am looking forward to hearing the testimony.

PREPARED STATEMENT OF SENATOR TRENT LOTT

My State of Mississippi leads the nation in a high rate of infant mortality.

Dr. Sullivan, you have proposed a research study project to be done at HHS to evaluate ten cities with high rates of infant mortality.

This is a timely and commendable initiative.

Mississippi needs to be represented in this study.

Since the announcement was made, I have heard from a record number of constituents who are very concerned that a proposed funding strategy will possibly exclude Mississippi from being named as one of the ten-city infant mortality project sites.

Worse, the proposed funding might reduce the amount of available fiscal year 1991 grant moneys to Community Health Centers—there are 20 such health centers in Mississippi.

A very critical look at the 82 counties of my home state will clearly reveal that there is a great need, particularly in the Delta region, to study, evaluate, and eradicate the serious problem of infant mortality.

Citizens of Mississippi struggle daily trying to cope and overcome the problems of high unemployment, and low income per capita.

The denial of being named one of the ten-city sites chosen for this crucial fact-finding HHS study will be a tremendous blow.

Dr. Sullivan, I ask you to please give my State of Mississippi every possible consideration in this decision.

I have sent you a letter in this regard, with information on the town of Byhalia, MI which is just one example of a high risk infant mortality area.

Please help the poorest of the poor.

I would appreciate knowing the status of this study, and your comments.

WRITTEN QUESTIONS FROM SENATOR DOMENICI TO SECRETARY SULLIVAN AND THE RESPONSES

PREVENTION, PRIMARY HEALTH CARE, PERSONAL RESPONSIBILITY

Question. The 1992 Budget emphasizes efforts to prevent health problems and primary health care. In addition, Secretary Sullivan has stated that we need to encourage people to take responsibility for their own health. What kinds of steps should we take at the Federal level to encourage prevention and primary care?

Answer. Our recently released "Healthy People 2000" report outlines major initiatives in the prevention arena which we believe will greatly enhance our National prevention efforts. The plan relies heavily on cooperative action of Federal, State and local governments and includes encouraging States to use their Federal Prevention Block Grant funds to address specific prevention goals.

Question. Aren't Community Health Centers one of the most effective means we have of providing primary care?

Answer. There is no disputing the fact that Community Health Centers are very important in providing services to segments of our medically underserved populations, serving an estimated 6 million people in FY 1992 at 580 sites nationwide.

Question. What can the Federal Government do to encourage people to take responsibility for their health? Public education? Financial incentives?

Answer. Throughout my tenure as Secretary, I have taken every opportunity to promote a "culture of character". In FY 1992, my department expects to spend more than $7 billion on prevention activities, many of which emphasize personal responsiblity and support public education activities. For example, in the AIDS arena, we will expend $401.3 million on information and education services. In the area of breast and cervical cancer, we will spend $10 million through the National Cancer Institute to educate health professionals and women on the need for breast cancer screening.

COST CONTAINMENT IN HEALTH CARE REFORM

Question. Cost containment is often mentioned as a necessary ingredient in health care reform. What kinds of cost containment would you favor? Additional cost sharing? Supply controls? More managed care?

Answer. Certainly cost containment in health care is vital if we are going to have the resources to address the unmet needs for care which currently exist in this country. One dollar spent unnecessarily is one dollar less that is available for the uninsured or for long-term care.

The difficulty is to find ways to contain costs without compromising the availability or quality of care. The most effective way to accomplish that is to create an incentive structure for both patients and providers in which they are active and enthusiastic participants in the search for more efficient delivery of care.

The use of prospective payment in Medicare Part A is a dramatic example of how such an incentive structure can work. The physician payment reforms which we are currently developing will also help contain costs by shifting the emphasis to primary care over the more expensive surgical services. Coordinated care, which this Administration vigorously encourages, will also help reorient the way in which we think about providing and financing health care.

Question. How would you implement cost containment?

Answer. Effective cost containment cannot be achieved simply through government edict. It must be a cooperative effort on the part of all the concerned players. First of course there must be an awareness of the problem and a recognition of the need for mutual effort. Government can play an important leadership role, by showing the way in government sponsored programs, by helping to educate the public to the need for healthier and more responsible life-styles, by working with the private sector to find creative solutions to our common problems.

Question. Are there ways to allow "market forces" to help us get a handle on health care costs?

Answer. As I have indicated, market forces must play a critical role in any effective plan for health care cost containment. Market forces respond to incentives. The key is to structure the incentives in such a way that all of the effected players will see that it is in the best interests of everyone to insure that our limited health care resources are used in the most efficient manner.

COMMUNITY HEALTH CENTERS EXPANSIONS

Question. The National Association of Community Health Centers is proposing a significant expansion of these centers as a means of providing ready access to primary health services. Based on the success of these centers, do you think they merit increased funding?

Answer. We believe that Community Health Centers do play a vital role in providing primary health care services to the underserved. In FY 1992, while our budget request seeks a direct appropriation the same level as FY 1991, we expect that total resources available to Community Health Centers will continue to expand. The recent expansion in Medicaid coverage for pregnant women and children will have an impact on increasing rembursements available to these facilities.

Overall, we expect the financial resources available to Community and Migrant Health Centers to increase by $34 million in FY 1992. This does not include a portion of the $139 million for the Healthy Start Infant Mortality Initiative, which CHCs should obviously receive in those targeted communities.

Question. Can Community Health Centers play a significant role in reducing our access problems?

Answer. Community Health Centers already play a significant role in providing services to almost 6 million people. As you know, two blue ribbon panels are currently reviewing the United States health care system, particularly as it applied to underserved Americans. We expect this report to provide useful insight into how best to serve these populations.

MEDICAL LIABILITY REFORM

Question. How pervasive is the problem of unnecessary defensive medicine?

Answer. This issue is open to debate. One person's definition of unnecessary "defensive" medicine may be defined by another as high quality care. The American Medical Society estimates the cost of defensive medicine at $15 billion annually. Their estimate is based on the costs of increased recordkeeping, increased time spent with patients, and increased tests and procedures ordered.

Question. Does the current tort system adequately deter negligent medical care? Are patients who are injured adequately compensated?

Answer. The threat of suit, increased premiums, and the potential for loss of professional liability insurance serve as deterrents to negligent medical care, although we realize that some negligent care continues. Whether this provides "adequate" deterrence is a subject of great controversy.

The tort system, however, is only one of many elements directed toward the detection and deterrence of negligent medical care. Physician owned insurers also have a strong incentive to identify those physicians who are negligent and take appropriate sanctioning action. Limited research indicates that these incentives are at work and are effective. State medical review boards, the Inspector General of HHS, Medicare's Peer Review Organizations, the growth of large group practices, hospital peer review structures, an HMOs' quality review components are some of the detection/deterrence mechanisms in place. Also, as of last September, we established the National Practitioner of Data Bank. The purpose of the Bank is to limit the ability of incompetent health care practitioners to move from state to state.

Clearly, the adequacy of compensation for negligent care obviously varies on a case-by-case basus, Many recipients of inadequate or negligent care neither seek or receive any compensation. Plaintiffs who do receive awards, typically receive only 50–60 percent of actual payments as a result of contingency fee arrangements.

Question. What reforms do you think are most important? Can alternative dispute resolution, such as arbitration, improve the fairness of the system? Can medical practice guidelines evenually serve some useful purpose in medical liability reform?

Answer. We believe the following are desirable reforms: capped award limits on non-economic damages, elimination of joint and several liability for non-economic damages, elimination of collateral source rules, alternative dispute resolution mechanisms as mediation or pre-trial screening.

Clinical practice guidelines offer some promise in establishing delivery of care norms. However, because of the variability among patients, we must be aware that these will never be anything other than their name would suggest—guidelines.

Question. What can be done to improve the quality of medical care.

Answer. Tremendous improvement has been made in recent years in the area of health care quality assurance. HCFA has been at the forefront of initiatives to enhance health care quality. Peer review organizations (PROs) are Medicare's principal vehicle for monitoring the quality of health services provided to beneficiaries. HCFA is currently operating under the guidelines set forth in the 3rd round of PRO contracts. In preparing for each successive round of contracts, HCFA undergoes a thorough investigation of the effectiveness of the review categories and processes under the current round of contracts. To meet the changing needs of our health care system, HCFA modifies the PRO scope of work in accordance with the results of this anaylsis to maximize the return on investment in terms of cost and quality assurance. HCFA is currently developing its scope of work for the 4th round of PRO contracts.

In additional to HCFA, the Agency for Health Care Policy Research (AHCPR) within the Public Health Service will continue to conduct and support health services research on the outcome, effectiveness and appropriateness of health care services used in the prevention diagnosis, treatment, and clinical management of dis-

eases, disorders, and other health conditions. The 1992 budget of $122 million will support research, and analysis in the areas of medical liability, improvments in primary care, infant mortality prevention, and service delivery to individuals with AIDS.

Question. What is the rationale for the budget's "carrot and stick approach as opposed to direct Federal premption of State laws?" Does the Federal Government have adequate justification to enact reforms for Federally-supported health programs, such as Medicare, Veterans' health, and Federal Employees' Health?

Answer. Our approach is intended to give strong incentives to the States to enact reforms designed to stabilize the insurance market and assure access to care. Historically, areas such as insurance, regulation of medical providers, and torts have been under the jurisdiction of the State, rather than the Federal, Governments. We believe that reform can be accomplished within this framework.

INFANT MORTALITY INITIATIVE FUNDING

Question. The 1992 Budget proposes a new targeted Infant Mortality Initiative, to begin in 1991 with funds redirected and reprogrammed from Community and Migrant Health Centers and the Maternal and Child Health Block Grant. Can you tell us how much funding will be redirected in 1991 to this initiative and from what programs?

Answer. In FY 1991 we plan to begin our Healthy Start Area Infant Mortality Initiative with a total of $57.4 million as follows:

Reprogram just the increase of $33.7 million in the Maternal and Child Health Block Grant;

Target $23.7 million within existing programs. These funds will remain in the program to which they were appropriated, however, their use will be limited to the infant mortality activities in the targeted areas, rather than spreading these resources across the country to 580 different centers. These programs include: Community Health Centers, the Perinatal Case Management program, Health Care in Underserved Areas, and the National Health Service Corps Loan Repayment Program.

Question. Do you need authority from Congress to do this?

Answer. We certainly want Congressional support. We believe this program, aside from the direct services it will provide, will reveal, as a result of the strong evaluative component, important information to assure that future resources in a variety of programs—Community Health Centers, Maternal and Child Health Block Grant and others—will be used more effectively. And most important, will promote long-term savings through reducing infant mortality and disability.

Question. What is the rationale for taking these funds away from CHCs and the block grant for this purpose?

Answer. In the case of Community Health Centers, they are not being taken away. They will continue to be used by Community Health Centers. For the Maternal and Child Health Block Grant, they will continue to be directed to mothers and infants, but rather than being diluted to some areas with less need, they will be carefully targeted to areas with abysmal infant mortality rates.

INCOME-RELATED MEDICARE PART B PREMIUMS

Question. The Administration is proposing to increase the Medicare Part B premium for persons with annual incomes above $125,000. The budget estimates savings of $41 million in 1992 and $1.2 billion over five years from this proposal. How many people would be affected by this proposal? What is their average annual income? How much more would they have to pay each year in Part B premiums?

Answer. We estimate that approximately half a million taxpayers would be affected by the proposal. The monthly premium amount for these people would increase from the current $31.80 for 1992 to $95.40, and increase of $63.60. On an annual basis, it would go up from $381.60 to $1,144.80, and increase of $763.20. Even for those whose earnings were at the $125,000 level, this represents an increase of only six-tenths of one percent of their annual income.

Question. How would this proposal be implemented?

Answer. People who would probably be affected by the higher premium would be identified on IRS records. They would then be asked to indicate their anticipated income for the coming year. If it exceeded the threshold, the higher premium would be deducted. We also anticipate that we will do a retrospective examination of income records to pick up those who were not identified by the self declaration of anticipated income.

Collection of the premium would be done in the same manner as it is now. If the person is receiving Social Security, Railroad Retirement or Civil Service retirement checks, the premium is deducted from those checks. Others would be billed directly.

Question. What happens if someone chooses not to pay the higher premium?

Answer. If someone preferred to drop their Part B coverage rather than pay the higher premium, that would certainly be an option that was available to them. However, it is highly unlikely that many people would choose to do so. Medicare Part B enrollees currently pay only about one-fourth of the cost of the program. The other three-fourths is covered by a subsidy from the general taxpayer. This proposal would result in a reduction, but not the elimination of that subsidy for people with incomes in excess of the limit. They would still be getting a substantial subsidy from the general taxpayer and thus would have no reason to drop coverage.

Question. Does the Administration's proposal address the "notch" that occurs at the income threshold where the higher premium begins to apply? (Persons just below the threshold will have higher after-premium income than persons just over the threshold unless the additional premium is phased-in.)

Answer. The Administration's proposal does not yet address this aspect of the premium increase. Clearly it is preferable to implement the proposal in such a way that a severe discontinuity does not occur. We will be happy to work with the Congress to resolve this anomaly.

STATE LEGISLATION IMPACT ASSISTANCE GRANTS (SLIAG)

Question. The President proposes to rescind all of the available appropriation for SLIAG in 1992, totaling $1.1 billion, using these funds for other high priority programs. Of the funds appropriated in 1988, 1989 and 1990, how much have States used? Is it your belief that states do not need additional funds to meet costs associated with assisting legalized aliens?

Answer. Of the $2.4 billion in SLIAG funds already made available to the States for FYs 1988, 1989, 1990, and 1991 only $1.2 billion has been drawn down by the States as of February 12, 1991. Based on this rate of utilization, as well as the fact that most of the people being assisted have been in this country over ten years, we are asking that the $1.1 billion that Congress reappropriated for FY 1992 be eliminated. It would appear that the $2.4 billion already appropriated should be sufficient to meet the intent to Congress in creating this program.

Question. Would you agree that the rescission of SLIAG funds requested by the President is an example of his trade-in trade-up approach to the 1992 budget cycle?

Answer. Yes. With the overall budgetary limitations, we have had to make many priority determinations, asking for increased funds in certain other priority programs and offsetting these elsewhere within our budget. Given that it appears SLIAG can accomplish Congressional goals with the $2.4 billion already made available to the States, this type of trade-off is appropriate under the current budget agreement.

GALLUP ALCOHOL CRISIS

Question. Mr. Secretary, there are several key points that have emerged from the planning process funded by the Robert Wood Johnson "Fighting Back" initiative against Indian alcoholism in Gallup, New Mexico.

The first concern identified in this well-coordinated planning process is the need to expand the medical detoxification services now available at the Gallup Indian Medical Center in Gallup, New Mexico. This expansion would require renovation and operations funds from the Indian Health Service.

The second major concern is the fact that the Indian Health Service plays a relatively minor and invisible role in fighting the huge problem of Indian alcoholism in Gallup, New Mexico. I would like to see a much larger effort by the IHS in the key areas of prevention, treatment, and aftercare.

My final concern, Mr. Secretary, about IHS involvement is the complex flow of funds once we in Washington finally agree about doing something to help these needy Indians. The many delays in the pipeline are very frustrating to the local program operators who must wait for the money to go from Washington, D.C. to Rockville, Maryland; to Windowrock, Arizona (IHS); then to Windowrock again (Navajo Nation); and finally to the contract providers. What can be done, Mr. Secretary, to improve this cumbersome flow of funds?

Answer. Although the FY 1991 Interior appropriation was signed on November 5, most funds were allocated to tribal contractors by November 17, 1990. This would include recurring base contract funds, inflation, other mandatory increases, and

funds earmarked for specific projects such as the alcoholism project you mention in Gallup, New Mexico.

Funds which are provided for general program increases, including the Indian Health Care Improvement Fund, are subject to application of the Resource Allocation Methodology (RAM) in order to distribute resources equitably to those programs with the greatest projected need. This program is dependent upon actual program and financial data from the previous fiscal year, which is usually available no earlier than December 31. This program is necessary for equitably raising the health of all Indian people to the highest possible level.

OLDER AMERICANS ACT, TITLE VI

Question. Mr. Secretary, Title VI of the Older Americans Act authorizes grants to Indian tribes for supportive services and nutrition activities similar to Title III grants for non-Indians (State and Community Programs).

In FY 1989, the Administration reduced funding of the existing Title VI grantees by about half in order to add 30 new grantees.

The grants were reduced an average of about $50,000 each from a level of $100,000 each to the much reduced average of $50,000.

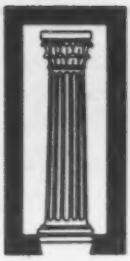
In order to restore these programs to their 1988 level, about $9.9 million would be needed. With this kind of increase, the original 150 Indian grantees could be restored to about $100,000 each; the 30 new grantees could be increased from $50,000 to $80,000; and the 25 new grantees could be added for $60,000 each.

How would the Administration view such a proposed increase of $9.9 million?

Answer. The FY 1992 President's Budget requests a total of $14.6 million for Title VI programs under the Older Americans Act, including $13.1 million for Grants to Indian Tribes and $1.5 million for Grants to Native Hawaiians.

The $13.1 million for Grants to Indian Tribes will provide supportive services and congregate and home-delivered meals to older Indians in Federally recognized tribes or tribal consortia with 50 or more older Indians. This funding level is $2 million, or 18%, over the FY 1990 appropriations. We estimate that 215 Indian tribes and tribal consortia will receive average grants of $61,088 in FY 1992, $8,287 and 16% above the FY 1988 average grant of $52,801 made to 136 grantees.

In addition, older Indians being served under Title VI programs are also eligible to receive supportive and nutrition services provided under Title III of the Older Americans Act. Title III programs are funded at $752 million in the FY 1992 President's Budget, $42 million over the FY 1990 level.



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STATEMENT OF

MARTHA McSTEEN
PRESIDENT

NATIONAL COMMITTEE TO PRESERVE
SOCIAL SECURITY AND MEDICARE

SUBMITTED TO
COMMITTEE ON THE BUDGET
U.S. SENATE

REGARDING
HEALTH CARE ISSUES

MARCH 21, 1991

I am Martha McSteen, President of the National Committee to Preserve Social Security and Medicare. Thank you for providing me the opportunity to express the views of the National Committee to Preserve Social Security and Medicare on the President's budget for fiscal year 1992. With five million members, most of whom are senior citizens, we are very concerned about budget changes that may affect them. With the President's budget setting a framework for discussion of the nation's priorities, we asked Chambers Associates to analyze the affect of the President's budget on senior citizens.

The National Committee is concerned that the President would propose significant cuts in Medicare, housing assistance, low income energy assistance, Supplemental Security Income (SSI) and Older Americans Act programs. According to the Chambers Associates study, net spending reductions proposed in FY1992 affecting senior citizens total $3.3 billion even after taking into account some program increases. Over $2.8 billion in cuts are in the Medicare program alone. While the big money is in Medicare, the budget continues to whittle away another $500 million in discretionary spending. Discretionary programs play an important role in the well-being of many poor seniors.

The historical context, however, is key to understanding the dramatic impact of the proposed budget cuts. A superficial reading of the rationale for the proposed cuts may impress the reader unless one considers prior year cuts. The Chambers Associates report demonstrates that Congress has cut at least $70 billion in Medicare over ten years through 1995. Moreover, last year's painful Medicare cuts were supposed to be the price of budget peace for the next five years. Apparently not. While in the past additional Medicare cuts were frequently driven by the budget law, additional Medicare cuts are unnecessary this year to comply with the new budget law.

In the last decade, the government has reformed the way Medicare reimburses hospitals (1983) and doctors (1989). The National Committee has supported the reform goals to cut unnecessary spending while still reimbursing hospitals and doctors fairly. But even with increased efficiency, there is a limit to how much payments can be squeezed before quality care is

affected. While cost containment is a legitimate goal, health cost inflation is a health system problem that cannot be resolved by shifting federal costs to providers and beneficiaries. While the National Committee is not in a position to judge what is adequate reimbursement for hospitals and doctors, we give great weight to the recommendations of the nonpolitical Prospective Payment Assessment Commission and the Physician Payment Review Commission.

The President's budget also makes two proposals directly affecting beneficiaries. Most publicity has gone to the proposal to triple Part B premiums for upper income seniors, even though it only raises a net $41 million next fiscal year and $1.2 billion over five years. Most significantly, it undermines the social insurance principle and lays the groundwork for higher premiums for middle income seniors as well.

The proposal also obscures the more serious proposal for a 20 percent co-insurance for clinical laboratory tests for all Medicare beneficiaries. Last year Congress definitively rejected this proposal which was part of the budget summit. It would result in over $4 billion in additional co-insurance for sick Medicare beneficiaries.

Budget battles over Social Security and Medicare frequently obscure the impact of budget cuts on discretionary programs. Spending on discretionary programs affecting seniors has declined 55 percent in inflation adjusted dollars over the last ten years. While the biggest decline was in housing programs (80 percent), significant declines have occurred in Health Care Services Grants (42 percent), Low Income Energy Assistance (29 percent), Social Services Block Grants (22 percent), Weatherization Grants (16 percent), Veterans Medical Care (8 percent), Older Americans Act (8 percent), and Senior Community Services Employment (4 percent).

Many of the discretionary programs like low income energy assistance and social services block grants, which do not predominantly serve seniors, still serve a significant number of needy seniors. As a result, while current spending on programs which predominantly serve the seniors is $55.6 million dollars lower in real terms than it was a decade ago, the senior share of general discretionary spending (excluding housing programs) is more than

$1 billion lower in real terms than it was a decade ago. The senior share of housing programs is almost $16 billion lower in real terms than it was a decade ago.

Finally, the Administration's rhetoric suggests that preserving "entitlements" in some way harms the poor. Social Security and Medicare are the nation's most important poverty fighting programs. The Administration could just as easily have proposed offsetting increases in either means tested entitlements or discretionary programs which primarily serve the poor. As the Chambers report points out, the Administration instead has proposed to cut Medicaid and SSI by $163 million next fiscal year in addition to cuts in discretionary programs.

Health care, like retirement income, are essential to the well-being of retired Americans. Seniors make no apology for fighting to preserve Medicare. We believe that working Americans also are concerned that a strong Medicare will be there when they retire.

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